ECONOMICS IN ACTION · JUNE 1954

June will find the U.S. economy in a much sounder position than most of the experts had thought possible last winter. Production and employment seem to have stabilized and, while there are few signs of a pick-up in the immediate future, the outlook for late fall is good:

Consumer expenditures for goods and services during the first quarter were greater than last year's although all this increased spending went into services such as rent, transportation, medical bills, etc. Spending for durable goods (TV sets, autos, etc.) actually dropped 7% while purchases for non-durables (textiles, food, etc.) remained substantially unchanged. Even so, consumer buying is running ahead of industrial production, which means that manufacturers and retailers are selling more goods out of inventory and may soon begin stocking up again. Preliminary sales estimates for April and early May, particularly in autos and home furnishings, seem to confirm such optimism.

Construction awards for the first four months of '54 registered a new high of $10 billion—1.3% above a year ago—and early May data looks even more encouraging. Since this gain is largely in non-residential construction, it looks as if business is really living up to its previously announced spending plans for capital-plant expansion.

And that means more jobs and increased purchasing power for an expanding production.

Economists warn that this optimism must be qualified with a good many "ifs" and "buts." For, while the economic situation as a whole has improved considerably in the last two months, there are still a lot of soft

spots that will have to be corrected before any significant upturn can occur:

The farm situation shows no sign of improving. Crop losses from recent droughts are expected to further reduce the farmer's income despite a probable (very small) rise in farm prices. Meanwhile, even a relatively poor harvest could boost the Government's farm-surplus load to new record highs. Cost of just storing these various surpluses currently runs to around $500,000 a day.

Unemployment declined in April for the first time in seven months and indications are that the drop continued in May. But a seasonal increase in farm and construction employment accounted for most of this decline, while manufacturing employment continued to drop. Economists are also worried about what will happen at the end of the month when thousands of high school and college graduates swell our labor force, putting an added strain on our tight job market.

Some industries continue to cause a good deal of concern. Coal production, for example is down to the lowest level since the depression, with no sign of a pickup in sight . . . Steel output is still hovering around 70% of capacity and, barring a change in the political picture, no upturn is expected before early fall . . . Textiles continue weak.

But while these industries will probably continue to bother us for the rest of the year, economists are confident that this situation will improve, not worsen.

An important factor to remember is that the present readjustment has actually left many people better

(Cont'd on page 63)

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a personal note

ONE OF THE NASTIEST PROBLEMS confronting Washington officials these days (and not getting the biggest headlines) is that of determining what went wrong with the Federal Government's operations to provide a lot of people with "low-cost" housing. No one knows yet exactly how much money has been loosely administered since the Government entered the housing business. But even if we should accept the most conservative estimates, it becomes clear that Federal "low-cost" housing programs sometimes come at an appallingly high price.

It is not clear in my mind whether the decision "to do something about housing" was the result of an expression of social conscience on the part of those who were living better; or of a simple act of initiative on the part of Government officials; or whether it was the result of complaints from many voting Americans who didn't like the houses they were living in. I am not too sure about the first two of these three possible reasons; but I am almost positive it couldn't have been the third which moved the Government to redistribute the wealth of the nation. For if it was, we have truly set a dangerous precedent. I know a lot of people today who don't like the automobiles they are driving. They would much prefer to have a 1954 model. Does this suggest the Government ought to get into the automobile business?

In an economy which operates within the climate of incentive, it is a prevailing fact that the demand for a particular kind of service will *by itself* bring about the supplying of that service by people who hope thereby to profit from their initiative. Unfortunately, both the demanding and the supplying must fall within the range of economic possibility. Therefore, if there is an economic demand for housing, the natural processes of a relatively free economy can create that housing, provided the demand does not outstrip economic resources. Either the economy *in toto* becomes richer so that we can all have better housing than we have now, or we all stay where we are. And no amount of redistribution of the wealth by fiat on the part of Government can make us really better off.

I AM CERTAIN there is no way at this time to provide a good house for *every* family merely because we so wish it. Good housing is a condition supported by a good economy, just like a cork is supported in

water. And the national economy, like water, tends to seek its own level. If it is lifted at one point to benefit one group, it will decrease at another point to the disadvantage of other groups. If in a fit of frustration we should suddenly decide to provide every family in the United States with a $20,000 home (which in these days would not be a sumptuous house, but a comfortable one), we could not afford to hold on to a stick of furniture, a single factory or piece of machinery. We would have to cash in every form of wealth we now possess to provide that $20,000 home for every family. Our economy simply is not rich enough as yet to do the job for everyone at once.

No one can argue that what the Government sought to accomplish ought not to be accomplished. Good housing for everyone is a wonderful idea. But now that these housing scandals are before us, is it not time to clarify the obvious discrepancy between the promise and the performance? Indeed, it had been predicted that money in the hands of Government officials (who do not have the profit-making incentive) would be loosely administered. There is no doubt now that whenever these officials negotiated with builders and real estate people who *did* have the proper profit-making incentive, the latter always got the better of the deal. It seems that human beings are so constructed that they will take better care of their own money than someone else's.

Interestingly enough, the corollary activities of the Government, such as rent controls and the pricing of housing units at levels substantially lower than what the current market dictated, have in themselves aggravated the very shortage which the Government sought to ease. For who will want to compete against Government-sponsored or controlled housing units which defy economic realities?

LET THERE BE no misunderstanding about what I am saying. I do not wish to be accused of advocating slums. I do not want slums. I want housing to improve *because* the economy improves. I want the levels of housing to rise as the economy rises. And if in the course of a richer economy there is a demand for new dwellings, I expect that builders will supply that demand at a price which people can pay—and at which builders can afford to build. And if with proper conditions there be any builders who do not see a good business opportunity when it is before them, I am certain they will be displaced by others with more acumen. This is the only way it will work. If this painful truth clouds a Utopian dream, then it is time to wake up.—H. B.

The desire of people to save for a home has skyrocketed savings and loan associations to a position of equality with savings banks

Home Building Makes Big Banking

by Sam Shulsky

The savings and loan associations, once known as the "poor man's bank," are today the fastest growing pools of savings in America.

One out of every four families in the United States puts some of its savings into a savings and loan association. Last year 40 percent of all home buyers financed their homes through mortgages placed with these associations.

This phenomenal growth sometimes must cause conservative savings bankers to wonder.

If the savings and loan associations have accomplished anything, they have succeeded in bringing a little of the human quality of the corner store to savings banking. In fact, they have actually brought banking to the market place—if not to the old corner store, at least to its modern counterpart, the super market.

Last year, San Antonio's Building and Loan Association, one of the largest savings and loan associations in Texas (assets $34,000,000), decided to open its first branch. When it could not get exactly the spot it wanted, it opened up in a Handy-Andy super market!

Evidently, San Antonio's shoppers loved the idea. The slogan, "Save at Handy-Andy and put it into a savings account" seemed natural enough. In the first few days no less than 116 shoppers opened accounts totaling $28,000.

This may be an extreme approach to "the little people," but it works.

The more than 6,000 savings and loan associations in the country today have more than $23,000,000,000 of savings on their books. (And their 15,000,000 depositors are putting away nearly $25,000,000 a day.) They have lent more than $22,000,000,000 on home mortgages.

For the past twelve years Sam Shulsky has been assistant financial editor of the New York Journal-American.

What is a savings and loan association?

It is an organization, usually local in character, or at least in origin, in which people invest their savings so that they and others in the community can borrow to buy, build or modernize their homes. Sometimes it is called a homestead association, building and loan association, or building association.

Although it has many outward characteristics of a savings bank, the savings and loan association is quite different. It is more nearly an organization of home mortgage owners than savers. Members of a savings and loan are not so much "depositors" as they are share-owners in a company owning real estate mortgages. It is for this reason that money put into a savings and loan cannot have the liquidity of savings bank deposits.

The accent is on home lending. That is the basic reason for the savings and loan's existence.

In fact, home financing is so integral a part of the savings and loan history that it was first intended that the associations terminate and go out of business as soon as every member attained the necessary funds to buy or build his home.

THE FIRST association was founded by thirty-seven citizens of Philadelphia in 1831. Its first loan was for $375, a down payment on a house. It turns out that this trail-blazing borrower defaulted. But the house still stands, at 4276 Orchard Street, now dedicated by the savings and loan associations of Philadelphia and Pennsylvania as a shrine to the borrower's good intentions.

Although the associations were thus founded as local community aids to home financing, they have expanded rapidly and become big business, indeed.

From 1939 to the end of World War II, while mutual savings banks were adding 46 percent in deposits, the "s & ls" jumped 80 percent. Since the end of the war, with mutual savings bank deposits rising 60 percent, the associations have increased their deposits 200 percent.

Thus by the end of 1953, assets of the two types of institutions were nearly equal, the associations having caught up with the banks' assets at around $27,000,000,000.

There has been good reason—in fact, several good reasons—behind the s & l's amazing growth:

First, the close tie-up of savings and loan associations with the community's need for home financing. With the unprecedented building boom since 1945, their mortgage loans have skyrocketed from a total of $5,000,000,000 to $22,000,000,000.

Second, the higher interest rates the associations can pay since most of their funds are invested in home mortgages.

Third, the aggressive promotion and merchandising of services on a community institution basis—what savings and loan men define as "our closeness to the people."

This last advantage was enhanced no little by the fact that until very recently, most savings banks have been somewhat stuffy institutions, with little glamour appeal to their savers, let alone to the community as a whole.

But the big impetus in savings and loan growth first came from Government intervention in the midst of the depression. With unemployment at its peak, the conclusion was reached that much-needed home building could be encouraged if local financing were made available. This, the savings and loan partisans insist, was lacking in nearly one-half of all the counties in the United States.

And so, on October 15, 1932, Congress created and financed the Federal Home Loan Banks as a network of reserve credit for savings and home financing institutions. (By 1951, all of the Government's stake had been repaid.)

On June 13, 1933, Congress took the next step, authorizing Federal charters for savings and loan associations which until then had been only state-chartered institutions—many of them small and often only sketchily regulated.

This was followed the next year by the organization of the Federal Savings and Loan Insurance Corporation to protect accounts. By law, all Federal associations are required to be members of the Federal Home Loan Bank credit reserve and of the insurance corporation. Membership in both, however, is also open to state-chartered associations.

By the end of last year, 3,304 savings and loan associations carried insurance on accounts up to $10,000 each under the FSLIC. Of these, 1,604 were Federally chartered and 1,700 were state-chartered associations.

To PUSH their home-mortgage business, the associations originated the monthly installment plan of paying for a home. As a result, in the building boom which followed the end of the war, houses no longer were quoted at $11,000 or $15,000, but at $68.93 or $79.87 a month, taxes and insurance included. Millions of young newlyweds who previously had been frightened by the seemingly overwhelming burden of $10,000 and $12,000 mortgages signed up eagerly under the "pay like rent" plan.

Since real estate prices have

held firm, it is still too early to see the results of this easy home-owning policy.

Nor have the associations been any less aggressive in their solicitations of new savings accounts.

They have wooed savers with Saturday morning movies for youngsters, with play pens and baby sitters for infants. Others have tied up with the school savings plan, heretofore considered the exclusive field of the savings banks.

But, possibly most important of all, they have gone where the masses of people are found.

Savings and loan associations in recent years have been steadily moving from those city districts dominated by austere bank structures to the more down-to-earth setting of the shopping districts.

In Chicago, for example, four of the largest savings and loan associations are now doing business on State Street, the heart of the shopping district. Three of them were formerly located in the city's financial district concentrated on LaSalle Street. Although there is no question that the "big money" of Chicago remains on LaSalle, it is just as clear that in numbers of people — poor and middle class as well as wealthy— State Street has few equals.

THIS homely, "plain folks" quality has in no way deterred the associations from becoming Big Business.

At the 1927 peak there were 12,804 associations — all state-chartered — with total assets of $7,179,000 (an average of $560,000 each). By the end of World War II, the 6,163 institutions then in existence were ready to jump into the building boom with $8,800,000,000 (nearly $1,500,000 in assets each).

At the end of last year, the number of institutions was down to 6,000, but assets had jumped to $26,600,000,000, or nearly $4,500,000 for the average association.

PROBABLY the strongest magnet attracting savings to the associations remains the high yield of interest.

Since at least 80 percent of s & l resources are invested in home mortgages, earning 5 percent on the average, dividend payments of three and three and one-half percent are relatively common. The savings banks, with more of their funds invested in high-grade, but liquid, two and one-half and three percent Government and corporate bonds, have been at a disadvantage and pay out only two and two and one-half percent.

For this dividend bonus millions who put their funds into savings and loans have, knowingly or unknowingly, given up some degree

of liquidity. In addition, in some instances, they willingly adhere to regular deposit schedules in order to get a bonus of one-quarter of one percent or so.

BECAUSE they cannot hope to match the liquidity of the savings banks, the savings and loan associations themselves admit their service is not for those who deposit $10 today with the mental reservation they may have to withdraw $9 tomorrow. But that is about as much as the s & l associations will yield to the savings banks.

While the old-established commercial and savings banks may not consider it polite to talk blatantly about the rate of interest paid, the savings and loans people know their customers are very definitely interested in the returns they get on their money. So, with few exceptions, the blackest and largest type in many savings and loan advertisements is reserved for the three, three and one-half or even four percent dividend rate.

Nor are the money brokers who steer you to savings and loans in various parts of the country bashful about advertising the fact they can get you these returns at associations thousands of miles away and "at no cost to you, since we get our payment from the association's advertising budget." This is account solicitation with few holds barred.

MUTUAL banks running up against such competition have been forced, of late, to fight fire with fire. Fountain pen sets, cigarette lighters, compacts, orchids and free $1 opening accounts have all been thrown into the breech to stem the tide toward the savings and loans. And for the more practical-minded depositor there have been, in many states, increased interest rates, plus even a little extra "sweetener" at the year-end in the form of a dividend.

In the last three or four years, these tactics seem to have had some effect. Whereas in the late 1940s savings and loans were picking up money at twice the rate of the mutual banks, the latter have now pulled up pretty nearly even.

But just so long as the savings and loan associations continue their aggressive promotions, pay one-half to one percent more in interest, retain a reasonable liquidity and provide Federal insurance, the savings bankers will know they are in a fight.

And the s & ls will go on funneling credit dollars into the building of new homes, one of the fastest growing and most profitable businesses today. ■

A House Every 25 Minutes

by Charles W. White

Manufacturers of prefab homes step up their output, offering buyers a variety of new houses at prices beginning below $6,000

IF YOU ARE moving to a new street or town and would like to make a smash impression, do it with a prefabricated house. A truck will arrive in the morning with knocked-down sections. Then half a dozen men will get to work in well-practiced routine. By evening your new home will glow in the sunset, while neighbors-to-be on their way home from work wonder what kind of trick you have pulled.

In all truth, a factory-built house can be set up between dawn and dusk as a regular procedure today. As the result of gains in efficiency and economy of construction, you may be able to effect a considerable saving over conventional construction costs, without necessarily giving up anything in the way of appearance or durability.

There are now about 100 major prefabricators, narrowed down through competition from a post-war field of at least 250, though the number is increasing again. Individually they are trying to outbid each other in appeals to your buying interest by making rapid improvements in their product.

In contrast to the gloomy talk among some residential builders today, America's prefabricated housing industry expects to put up more homes this year than ever before. It is aiming for a record eight to ten percent of the total number of new dwellings. Looking beyond this, it is tooling up to build *half* the total through 1964.

Charles W. White, a resident of Muncie, Ind., reports regularly on business and Governmental developments for many leading magazines.

Prefabricators have been saying that sort of thing for a long time, of course. But while they have expanded their annual sales to $500,000,000, having produced about 60,000 units last year, they have not, so far, been able to live up to their factory-built dreams. What's the difference today?

An important and inclusive answer was given recently by James R. Price, an acknowledged leader in the industry. His National Homes Corporation has put up more than 50,000 low-cost factory-built houses (he prefers this term to "prefab"). It is now producing them by assembly-line methods at Lafayette and at Horseheads, N. Y., at the rate of fifty a day, with 106 in-plant man hours per unit.

"We've licked most of the problems of production and design," Jim Price says, "and we're now able to give people in the medium and low-income groups better and more distinctive housing than they can get any other way, at lower prices." His advertising stresses a bold new concept: *If you have a job, you can own a home.*

Franchised home-town dealers handle most sales, usually in blocks of 100 or more units. But National Homes, and others, do not restrict themselves to this scale of distribution. "It depends on the local dealer," a National executive said recently. "We'll ship a house anywhere he wants it."

PRICE insists that many conventional builders are about forty years behind the public in resisting things like rambling no-basement houses on slab foundations, big windows screened by fence walls, and daring color schemes.

This year he and other prefabricators are betting heavily on contributions of topflight architects and decorators such as Charles M. Goodman and color-stylist Beatrice West. They created National's new two-bedroom "Cadet" selling at $5,600 (including an $800 lot) with a $300 down payment. American Houses, Inc., of New York City is promoting a new "Freedom" line designed by George Nelson, a former editor of Architectural Forum and developer of the storage-wall units which have aroused country-wide interest.

Another important 1954 trend is that toward "regionally designed" prefabricated homes. The Thyer Corporation of Toledo, Ohio, pulled big crowds at an advance showing of its Gulf Coast Series made at Collins, Mississippi, devised especially for the South Central and Southeastern climate. A recent issue of PF—The Magazine of Prefabrication features the "Westerner," developed by U. S. Steel Homes,

Inc., for Western and Southwestern areas. It is a wide, low ranch-type home with extra window space, and year-round air conditioning. It sells in the $7,500-$12,500 range.

In tailoring their homes to where you happen to live, the prefabbers hope to open up vast new demands beyond the Midwestern and Eastern states, where their market has hitherto been concentrated.

What resistance have prefabbers met? The biggest roadblock has been the hesitancy to accept new ideas in long-term family commitments for housing. Aside from this, the entire housing industry from union carpenter and plumber to lumber dealer, banker and big-time project developer is one of the most competitive on earth. Traditional builders themselves have for long been cutting cost corners, adding new wrinkles, offering favorable terms. And some of them, being right there in town and on the lots first, have talked against prefabrication or used political influence to fight it through zoning ordinances and building restrictions.

In many big cities, now, for example, there are rules against building a house on a concrete slab. Some towns stick to standards calling for two-by-four lumber and the like, ignoring modern stressed-skin engineering techniques that make a prefabricated house comparable to an airplane for strength. The prefab men, however, report that such obstructions are rapidly being dropped today. "Neither restrictive codes nor labor trouble are considered major problems these days," one executive says.

CERTAIN basic doubts have had to be met frankly and constructively by prefabricators. They are as follows:

1. Prefabricated houses have had a certain box-like appearance, especially when laid out in monotonous rows. " Prefabs are dull, they all look alike," housewives said.

2. People were afraid of extra costs. "When you put up a prefab you aren't through. After that you'll have to pay for a lot of extras like wiring and plumbing."

3. Opponents of prefabrication argued that a factory-built house wouldn't last. "What will your fancy new prefab look like ten years from now?"

The industry believes it has punctured these objections. National Homes, for instance, now offers thirty-four exterior designs and fourteen different interior layouts in a range from $7,000 to $15,000, excluding lots. Air conditioning is optional at $500-$600. There are dozens of exterior designs available with each plan and

the owner can get more variety with different placements of added features such as garage, car port, breezeway, porch or fireplace.

Knox Corporation, of Thomson, Ga., which got its start building house trailers, is delivering a factory-built "core unit." Its dimensions of 8 x 24 feet contain kitchen, bath and utility room completely finished and equipped (from range and refrigerator to dishwasher and exhaust fan) with air conditioning optional—all delivered and mounted on your lot at $3,200 basic price F.O.B. factory. You can build a variety of two-, three-, or four-bedroom houses around the core, any way you please.

United States Steel Homes, Inc., formerly Gunnison Homes, is bringing out a house made of modular steel panels which can be decorated according to your taste —with wallpaper if you like. Moreover, it will be "completely demountable, portable, soundproof, fireproof and weatherproof."

WITH regard to "monotonous rows," the single house market is getting more attention from the prefabricators. P & H Harnischfeger Corporation's Homes Division, Port Washington, Wisconsin, a leader in single-house and small-project promotion, now offers models priced at about $6,000.

As for extra cost, the trend is away from limited packages that leave much additional work to be done at the purchaser's expense. National's new Cadet series, for example, eliminates much extra equipment and labor. Complete plumbing and electrical materials come with the house.

What about installation, and how are labor union requirements met? On the local project, a typical contractor might employ a dozen or more trained workers who might or might not belong to unions. The situation is not uniform. Some traditional builders use nonunion labor on large projects. In any event, prefabricators consider local labor matters to be the builder-dealer's concern. The purchaser usually is guaranteed his house at a stated total price.

On the question of durability, prefabricators believe they have made their case with the public, but they are not letting up. National points to studies by Purdue University engineers which prove that factory-built houses live up to rigid quality specifications, often surpassing accepted durability standards. Jim Price cites homes put up by National which have stood up against a California earthquake and a Missouri flood.

"Our houses nearly always sell or trade in at more than the owner paid," Price declares. "When your family has outgrown

your National home, sell and move into a bigger one in a neighborhood that suits you!" He doesn't think much of the add-a-room idea, believing the owner too often gets in trouble by trying to patch up a house. In fact, Jim Price is rather fond of the idea of trading in factory-built houses like automobiles, and moving when and where you please.

IN ENGLAND or on the continent it might have been impossible to overcome public doubts of this revolutionary building technique in two decades. U. S. advertising and publicity methods have helped speed up the process here.

National Homes uses TV to show how prefabrication works, from assembly line to building lot. Specially designed machinery, including huge paint-sprayers, take the spotlight, turning out one house every twenty-five minutes.

Public showings have also been effective. When Riley McGraw, President of Good Homes, Inc., Indianapolis, Ind., displayed his U. S. Steel Homes sample last September, more than 6,000 persons passed through the atomic-age dream home in one week. Eleven of them bought on the spot; many others left inquiries.

The prefabricators' biggest recent headache, tightness of mortgage money, seems to be solving itself now with the Administration's easier money policies. In the fall of 1953 the entire housing industry was up in arms over sudden shortages of loan funds.

"We're getting plenty of money now, though," a Midwestern prefabber reports. "Banks, insurance companies—everybody seems to want to lend us money." B. D. Mainhat of the Prefabricated Home Manufacturers' Institute says some experts predict that mortgage companies will be granting special inducements by September.

Generally, the mood of the prefabricators this year—as usual—is one of aggressive optimism. They believe they have a product that will prove attractive to customers even in times of business recession. This year, according to indications at industry meetings, they may lower prices.

National Homes aims to turn out 25,000 units in 1954—double last year's production. As for the longer term future, Jim Price, who parlayed $12,000 he borrowed from Lafayette friends in 1940, to a net worth of over $8,000,000 last year, and is producing more factory-built houses than anybody else, bristles with assurance. Having been through at least one fire and near-bankruptcy, besides countless business battles, he's no Pollyanna when he says: "The future? We've barely scratched the surface!" ■

Some practical procedures are already in force which show how corporate and private businesses can contribute to the support of higher education—with mutual benefit

How Can Colleges Get Business Support?

by Robert S. Huffman

American businesses this year will pour millions of dollars into a new type of investment field —that of support for higher education. Admittedly, at first glance the road between colleges and universities and the profit motive of American businessmen is a vague and winding pass with only the flimsiest of apparent connecting links. The connection comes into sharper focus, however, when we take cognizance of the fact that business executives today are more concerned with the caliber of the personnel they employ and with the attitude of the public they serve than any other factor involved in their enterprises. Somewhere between the desire to satisfy their social consciousness and the practical need for a steady flow of good executive and scientific personnel there has developed a gradual orientation, on the part of businessmen, toward the idea that institutions of higher learning are an important asset to the business community.

In the meantime, another type of orientation was taking place among college presidents who, more and more frustrated in their attempts to balance their institutional budgets, found themselves turning toward the one remaining source of privately controlled funds which hitherto had not been petitioned for support—namely, private business enterprises.

It was, therefore, inevitable that the two sets of needs should be met in the years since 1948 by an ever increasing pace of cooperation between businessmen and the administrative officials of colleges and universities. That the initiative had to be taken by the latter to set up a plan of procedure belies the popular notion that academ-

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icians are poor businessmen. In this instance, the learned gentlemen had a proposition which promised to be of profit to all of the parties concerned.

THE STORY of postwar college finances has been told often; it is only necessary to mention that rising costs are not being met by rising income and that about half of the nation's colleges are currently operating in the red. This situation is especially true of the privately endowed liberal arts colleges which form such an important part of our free academic tradition.

In 1948 a group of presidents of privately supported colleges in Indiana took their tale of financial woe to nearby industries and advanced the thesis that free enterprise would not long endure in a society where privately endowed education had to perish or turn to tax money for support.

The businessmen did not have to be sold. They knew that a large portion of business leadership (some estimate as high as 80 percent) came out of the small liberal arts colleges. They knew of the increased product demand which results from a higher standard of living when people are college-educated. Businesses were already helping to support state universities through their taxes; they knew that business taxes would be even higher if the privately supported colleges were forced onto state rolls. And they also knew that dollars given to education would be cheap dollars in light of the tax structure; these dollars would cost them as little as eighteen cents. Business was ready to contribute the money. Their problem was to find an equitable method of doing so by which they could not be accused of trying to influence policies of the recipient colleges.

That method was provided by the Indiana college presidents. They proposed the establishment of an organization which would act as a middleman in receiving funds from corporations and distributing them to member colleges. This idea took hold with such force that it spread to other states, and the resulting movement now embraces thirty state and regional organizations, 376 colleges and universities, and thousands of corporations.

HOW DO these organizations work? The Ohio Foundation of Independent Colleges can be used as a case in point. The OFIC was not in the field as early as the Indiana pioneers, but it has now completed its third fiscal year and has taken in almost a million dollars in that time.

One of the OFIC colleges is Ohio Wesleyan University. Its

president, Arthur S. Flemming, is on leave in Washington as Director of the Office of Defense Mobilization, but at the same time he keeps a close eye on the finances of his university. Dr. Flemming brings out these points about the operations of the Ohio Foundation of Independent Colleges: "The OFIC includes twenty-two privately supported Ohio colleges. We have a small permanent staff which administers the Foundation, but the actual solicitation is done by the presidents and trustees of member colleges. Funds received in the central pool are distributed 60 percent equally to all twenty-two members, and 40 percent according to the enrollment of each college; administrative costs of the Foundation are assessed by the same formula. Corporations may designate their gifts for a given college, but the amount so designated is subtracted from the amount that college will receive under the 40 percent part of the formula."

Dr. Flemming goes on to explain that the OFIC restricts its activities to Ohio corporations or those doing a sizable business in Ohio; even at that its Board of Trustees includes such distinguished names as Harvey S. Firestone, Jr., James J. Nance, President of the Packard Motor Car Company, and A. A. Stambaugh, Chairman of the Board of Standard Oil of Ohio. The active support these men give the Foundation is proof that their interest in this cause is greater than that of having just another organization for which to play trustee.

Since this movement was undertaken to aid the colleges in solving their financial problem, the question might well be asked: What effect is the program having on the financial picture of individual institutions? Dr. Flemming's school, Ohio Wesleyan, is fitting these corporate funds into its budget in a fashion typical of the participating colleges. These colleges are not looking to the corporations for an unlimited dole which will meet all of their deficits; on the contrary, they realize that they must work hard to raise funds from other sources if they are to deserve those they receive from business. For example, Ohio Wesleyan has gone to its own alumni with an urgent appeal, and in the few years since the close of the war it has raised its alumni fund giving from $17,000 a year to $96,000.

This year Ohio Wesleyan stands to receive around $30,000 from the OFIC. This amount is equivalent to the interest on an endowment of almost a million dollars; the importance of this figure is seen in light of the fact that Ohio

Wesleyan's total endowment is only around $6,000,000. As the Ohio Foundation continues to make progress, it is hoped that this figure of $30,000 will be nearly tripled. Since these funds are not earmarked for specific purposes, as endowment funds and gifts often are, they are actually worth much more than appears to be the case.

The impact this amount of money can have on the budget of a small college can be shown by a concrete example: alumni fund giving at Ohio Wesleyan, as mentioned above, has increased by about $80,000 annually. While this amount is only about 5 percent of Ohio Wesleyan's educational budget, applying these funds exclusively to the salary structure has meant that the top salary for a full professor at Ohio Wesleyan has been raised in five years from $5,200 to $6,800. All other faculty salaries have been raised accordingly, with the result that Ohio Wesleyan can continue to get and keep first-rate professors, instead of seeing the cream of its faculty drawn away by better-paying jobs.

OHIO COLLEGES, then, are getting a real lift through the program of the Ohio Foundation. Much, of course, remains to be done to encourage more businesses to participate in this mutual aid program. Industry still feels certain reluctance in some cases about this type of giving. One of the fears which business has had centers around the reaction of stockholders who see money which they might receive in dividends being given to colleges. While the advantages of gifts to education may be made clear to stockholders, they may still question the legality of such contributions. Fortunately, there is now a judicial precedent in favor of corporate giving. A stockholder recently brought suit against the A. P. Smith Manufacturing Co., contending that a gift by that company to Princeton University for general educational purposes was illegal because there was no direct benefit to the corporation. The New Jersey Superior and Supreme Courts both rejected the suit, and the United States Supreme Court refused to review it, thus apparently setting the matter at rest.

Federal law allows corporations to contribute as much as five percent of their net profits to educational and charitable causes, but current studies show that corporations only contributed about seven-tenths of one percent to such causes in 1953. (And less than one-fifth of this amount went to higher education.) In percentage of profits given, smaller corporations show a better record than do larger ones, which is

probably a reflection of the difficulty a huge, nationwide corporation has in determining where its funds should go. A corporation operating solely or largely in Ohio can in all fairness make its contributions to Ohio colleges, but a large company selling its products in all forty-eight states has a real problem in making donations on an equitable basis.

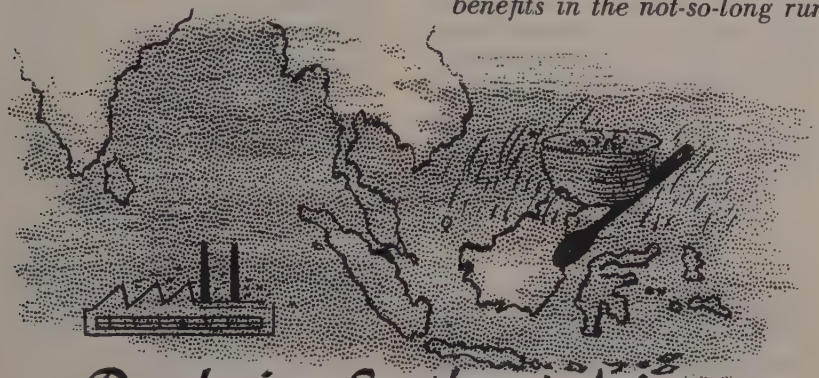
This problem is under consideration by the newly established Council for Financial Aid to Education, Inc. This organization, with some of the most distinguished names in American business and education on its Board of Directors, operates out of New York City to encourage corporate interest in higher education and to give advice as to the best methods of administering programs of corporate giving. Since the Council does not solicit funds itself, it does not interfere with the work of the state and regional organizations. Its chief function is to work out answers to questions such as that of how large businesses may most effectively contribute.

One of the big worries of the colleges is that business contributions would probably drop off significantly with a business recession or a decrease in the excess profits tax. College administrators must be able to count on fairly definite amounts from business in planning their budgets; they will receive more ulcers than benefits if the amounts contributed fluctuate violently each year in accordance with business conditions and Government tax policy. The corporations are similarly concerned because they do not wish to be just "fair-weather friends" of the colleges.

A large number of corporations are attacking this problem by the establishment of "company trusts" or "company foundations." These organizations receive the contributed funds in large or small amounts each year depending on conditions, and dispense them to the colleges on a farily even schedule which would level out any serious dips caused by a bad business year.

This entire program is so much in its infancy that such problems as these are inevitable; however, the most serious roadblocks have been overcome already. The thousands of corporations taking part in these programs today are the best proof that this type of giving represents, as Dr. Flemming has stated, "an emerging pattern of social responsibility on the part of business." ■

Our greatest challenge in the underdeveloped areas of Asia is to find a pattern of private investment which will bring obvious benefits in the not-so-long run



Developing Southeast Asia

A WELL-KNOWN radio commentator stationed in Europe complained recently that he was wasting his time. All the really dramatic news, he told his listeners, nowadays seems to come from Asia.

The radio commentator was no doubt exaggerating, but if you think back on the headlines of the past five years, you'll be struck at the way new and hitherto unfamiliar names keep creeping onto the front page: Korea, Indochina, Malaya, Burma, Pakistan and Indonesia. Today nearly all of us know where Korea is and the very mention of Indochina has a way of spoiling the rest of the day for us. We know that the British are having trouble in Malaya and that the new nations of India, Burma, Pakistan and Indonesia are not as stable as might be wished.

For it is in these so-called underdeveloped areas of Southeast Asia, which "support" more than one-fifth of the world's population on less than one-eighteenth of the earth's surface, that decisions are being made that may seal the future of the free world more conclusively than even the H-bomb. The 500,000,000 people who have obtained their independence in the last seven years are determined to put an end to the grinding poverty that has been their lot for centuries. They are determined to accomplish in one generation what it took the Western World, under much more favorable conditions, more than a century. Such is their economic need and political in-

experience, moreover, that they don't really care how it is to be done. As an eminent Indian economist put it in a recent United Nations debate on Foreign Economic Aid to Asia: "We intend to travel along this road (of economic development) with the assistance, and in the company, of our friends if possible; without them if necessary."

AT FIRST glance, the problem of raising living standards in these "countries of the sad statistics" appears insoluble. When we read, for example, that the population of Southeast Asia is increasing at an annual rate of more than 8,000,000, but that practically all the usable farm land is already under cultivation, we may well despair of ever solving the Number 1 problem of the underdeveloped world: population growth versus food supply. When we read further that the average per capita food consumption in India is 1,700 calories—and most of that in starchy carbohydrates—as against a scientifically established minimum of 2,250 and a U. S. figure of 3,130, we will more readily understand why, despite all exhortations, productivity continues at such pitifully low figures.

Theoretically, most economists agree that the only way to raise living standards in Southeast Asia is through industrialization. In fact, they insist that if industrialization does not progress much more quickly than it has up to now, living standards are going to get worse, not better. For, with her land already badly overcrowded—the average population density of Southeast Asia is 450 persons to the square mile as compared to a U. S. ratio of 50—it is painfully clear that industry will have to provide a living for Asia's zooming population. Few of us realize what a gigantic task this is going to be. It has been estimated, for instance, that, just to keep the land from getting more overcrowded, India must place some 800,000 new workers in manufacturing each year.

UNFORTUNATELY, as the governments of these countries have learned, it is useless to industrialize unless you can at the same time increase agricultural productivity to the point where it can feed your new industrial labor force. The terrible truth is that in most countries of Southeast Asia just the reverse has happened. Per capita food production has dropped off more than 15 percent in the last fifteen years, while the industrial labor force has increased by more than 10 percent. As a result, despite the heroic efforts of the countries concerned, despite Point Four and United

Nations assistance, most people in Southeast Asia probably have less to eat today than they did fifteen years ago under colonial rule.

The problems of industrialization and increased agricultural production are really inseparable. For, just as the rate of industrial expansion will, in the final analysis, depend (among other things) on how quickly agriculture can increase its food output, so an increase in agricultural productivity is impossible without more tractors and more fertilizer, without more power and better roads. What both agriculture and industry desperately need is the capital with which to finance this essential expansion.

But where is this capital to come from? Unlike the West, whose industrialization was financed largely by individual savings, Southeast Asia must rely for about 75 percent of her total investment capital on the government. The reason for this is simple. In countries where the annual per capita income varies from $25 in Indonesia to a "high" of $75 in India—the U. S. figure in comparable dollars is $1,525—there obviously is not much in the way of savings left for investment. And even the little that does remain is in the hands of the very rich and traditionally goes into jewelry and other luxury items, or at best into trade, for there is no tradition of venture capital investment in Asia such as exists in the United States and Europe. Under these circumstances, it is hardly surprising that many Asian statesmen should have decided, as one Burmese economist recently put it, that "Capitalism is a luxury which only wealthy nations can afford."

On the other hand, it is becoming increasingly apparent that socialism may be even more expensive—both in terms of political freedom and in terms of economic development. The governments of these new countries know full well that it is impossible for them to do all that needs to be done without a substantial increase of private—and in Asia that means foreign — investment. For one thing, even the government is limited in the amount it can spend by the meager capital resources of the area. Revenue from taxation does not amount to much in countries where there is little taxable wealth in the first place. In most of these countries, moreover, an unusually large part of government revenue must come from the proceeds of foreign trade which generally vary with the prices of a few commodities. The Government of Indonesia, for example, depends on export and import duties for about 50 percent of its revenue. When we learn

that 70 percent of Indonesia's export value is based on three commodities: rubber, tin and copra (dried coconut meat from which coconut oil is extracted) whose prices have been fluctuating violently during the last three years, we will more readily understand how unreliable tax revenues can be in Southeast Asia.

WHAT else can these governments do to raise capital? Not very much. They can sell shares in public projects, but at the low rates of return offered, such securities are, with a few exceptions, considered a poor risk by prospective investors. In many instances, therefore, the government is forced to turn to deficit financing. This is usually done by printing government bonds, depositing them with the central bank (a government institution) and then spending the money.

Now, deficit financing is always a dangerous business whether it be used in the United States or in Timbuktu, but it is particularly dangerous in Southeast Asia where such a lot depends on overseas markets. When the government "borrows" capital to build a power plant or a hospital, it is really putting more money into circulation without at the same time increasing the supply of goods. The result, if the project is large enough, will be a general rise in prices, wages and production costs. This is bad enough, but in Southeast Asia it can be well-nigh catastrophic, for it also means higher export prices, which are usually followed by reduced sales. And that, in an economy which depends on foreign trade for a large part of its national income as well as for the foreign exchange with which to buy machinery and equipment needed for industrialization, can mean economic paralysis. To prevent this from happening, the government is often left with no other choice but to devaluate the currency to save its lagging export industries. But while devaluation may help the export trader and his foreign buyer, it can play havoc with the domestic economy. Living costs, particularly in the cities which depend on consumer imports, skyrocket. Wages and domestic prices follow suit and industrial production slows down to a walk. Perhaps, even more important, such inflation destroys confidence in the integrity of the government and in the solvency of the economy as a whole. Capital is converted into "safe" but economically useless gold and jewelry, or it flees the country, forcing the government to go into more deficit financing in order to meet old debts.

AND this is where the foreign, and particularly the American, in-

vestor enters the picture. Most economists are convinced that the only way to combat the terrific inflationary potential of government investment in non-liquidating (i.e. unproductive or unproductive for a long time) programs such as schools, irrigation projects, roads, power plants, etc. is to increase the production of goods. But, while government alone is willing and able to invest in roads, for example, it cannot (and in a democracy should not) spend money for automobiles to run on these roads. Thus, even the Indian Government, which is perhaps more heavily committed to state intervention in industry than any other non-Communist country in Southeast Asia, has up to now been unable to activate more than 15 percent of its Five Year Plan—currently in its fourth year — for industry. It seems pretty clear, therefore, that only foreign capital can provide Southeast Asia with the means for badly needed industrial expansion.

The sad truth is that, with the exception of the colonial areas, foreign capital has by-and-large steered clear of any large-scale investments in Southeast Asia. At first this is difficult to understand. There is a wealth of untapped resources in iron, manganese, tin, tungsten, oil, etc. in these countries that the West badly needs. Moreover, Southeast Asia is one of the largest potential markets in the world for every conceivable product, from industrial machinery and automobiles to Coca-Cola.

It has been estimated that at present only about 35 percent of the world's population (and that excludes most of Southeast Asia) constitutes a market in the sense that people buy goods which they have not themselves produced. Here then, it would seem, is a challenge for Western, and particularly for American business: to invest in the vast mineral wealth of Southeast Asia, thereby increasing the purchasing power of the population and their ability to buy Western products.

If you discuss this matter with a businessman, chances are he will agree with you on the desirability of greater private investment in underdeveloped areas. But he will insist that such investment must first be made attractive and secure —two conditions that have been, up to now, woefully lacking. The people of Southeast Asia are generally suspicious of foreign investment, which they still tend to identify with the 19th century variety of colonial exploitation. In their understandable eagerness to forestall such exploitation, the new governments have gone to the opposite extreme of making life as difficult as possible for the private investor. Confiscatory taxation and

unreasonable foreign exchange regulations often absorb all the profits made. Even more important, the investor must live in constant fear that the government in power will collapse and that its successor will nationalize his investment. Why then, our businessman will ask, should he take such a risk when he can invest in some good, solid American company and enjoy a higher rate of return in the bargain?

IF, ON the other hand, you talk to an Asian government official, you will get a rather different slant on the problem. Granted, he will say, our red tape may have kept away potential capital. But, he will insist, the basic problem remains: to make sure that foreign investment contributes to the economic well-being of our population as well as that of the foreign investor. Private capital is not generally invested where it is most needed, but where it is most profitable. As a consequence, government must still shoulder the main burden of economic development, which it must finance through taxation. Foreign investments are an important source of revenue and it would be economically unwise and politically unjust to give such investments special privileges.

As to the danger of political upheaval and nationalization, our official would maintain that the best defense against this is wholehearted cooperation with the existing government so that it can maintain stability and hold the respect of its people.

Is there no way of fusing these points of view? Is there no way of making investments in underdeveloped areas both economically useful and profitable? This is perhaps the most vital question of our day. For, it is the Communist line that, shorn of its colonial privileges, free enterprise cannot provide the capital for growth in the underdeveloped world. Only a totally planned economy, so runs the Communist line, can really help this "submerged fifth" of the world, and it points to Red China as an example.

Now, unless we can provide a workable alternative, it is more than likely that the people of Southeast Asia will succumb to Communist pressure. This is the challenge creative capitalism must meet, if it wants to survive as a positive force in 20th century society. ■

Wanted

A LARGE SIGN in the window of a Syracuse, N. Y., jewelry store declares: "Wanted, Customers," and underneath in slightly smaller letters: "No experience necessary."

By changing its interpretation of existing laws, the National Labor Relations Board has started a new era in labor-management disputes

The New Look In Labor Relations

by Roland Sawyer

LIKE MANY other New Deal slogans and battle cries, "captive audience" is a term that you seldom hear in Washington these days. In its place has come "free speech," a generally familiar phrase which in labor relations has come to have a very special meaning because it is a symbol of a change in policy. The Taft-Hartley Act, replacing the Wagner Act, was intended to effect this change, but it never did in the eyes of most Republicans and many Democrats in both houses. Now the NLRB appears to be doing so, the most notable example being its switch from a "captive audience" to "free speech" policy.

The term "captive audience" means, of course, employees called to a meeting on company time in the company's plant to listen to anything the employer has to say.

Roland Sawyer gives us this on-the-spot account from his vantage point as a Washington correspondent for The Christian Science Monitor.

For the past eighteen years employers have been forbidden, under both the Wagner Act and the Taft-Hartley Act, to hold meetings in their plants and to discuss matters at issue with workers, *unless they provided equal time and facilities to the union.* The new NLRB has found that this policy violates an employer's right to "free speech." This Board, three of whose members are Eisenhower appointees, has reversed all past rulings. Today an employer can call his workers together in his plant and talk to them, and that is the end of the matter as far as the employer's responsibilities go. If the union wants to talk, too, the meeting will be held some place other than on the property of the employer, unless, of course, the employer voluntarily gives permission for a union-sponsored meeting in the plant.

No change in the law was necessary to bring about this re-

markable shift. It is the same Taft-Hartley Act. But it is a new era in Government, and new eras bring new views. All that was required was a change in the interpretation of the law. Commenting on this particular reversal, Guy Farmer, new chairman of the NLRB, declared: "I have no doubt that we will, as time goes on, reverse still more. . . . The precedents which we have overruled were the opinions of the prior board as to what the statute meant and how it applied in particular situations. Since we did not agree with their interpretations, we had no choice but to reverse them."

Soon after his appointment last autumn, Mr. Farmer, with his then sole Republican colleague, Board member Philip Ray Rodgers, set about interpreting the Taft-Hartley Act "as I read it, not as somebody else who preceded me thought it should be read." He established this general rule before the arrival of the third Republican member, Albert C. Beeson, an executive who was fiercely attacked by Democrats and labor spokesmen in Congress when he was nominated. The new policy which Mr. Farmer has laid down is defined as "pro-public"—neither pro-management nor pro-labor. What "pro-public" means, exactly, is not easy to say as yet. It undoubtedly means an attitude toward labor problems more in line with management's viewpoint than has been the case in past years. But one should not necessarily infer that, *ipso facto*, the new Board is going to discriminate against labor.

It probably means that there will be an attempt to bring to Federal labor relations what so many members of Congress have felt was needed: a middle-of-the-road approach. Of one thing there can be no doubt whatever; this Board, like its predecessors, is a strong Board with a mind of its own. It will be vigorous, and it already has displayed this trait. Messrs. Farmer, Rodgers, and Beeson intuitively will think and act in concert on many basic questions. The chairman himself has directed attention to the fact that this Board, for the first time in eighteen years, has a solid majority appointed by a Republican President. The fact that Mr. Farmer proclaims a change in political ideology suggests that he is fully aware of the new social direction in which the Board will travel. The old Wagner Act, Mr. Farmer has said, was "fair" in its intent, but "one-sided" in its applications. This act enabled the present strong industrial unions in the United States to establish themselves, bargain collectively, and become an accepted instru-

ment of society. Mr. Farmer has no quarrel with that. But it seems evident, both from what he is doing and what he is saying (privately as well as publicly) that he believes that for most of these past eighteen years the Wagner Act *and* the Taft-Hartley Act have had a bias in the manner of their administration.

IN THE old and stormier days of the labor board, energetic New Dealers such as Edwin S. Smith and J. Warren Madden were making many of the decisions which some members of Congress felt strongly were one-sided. Mr. Smith was a particular thorn in the ranks of conservatives. He was a member of the Board during what might be called its most aggressive period, the late 1930s when the drives were on to organize big industries. Later Mr. Madden was one of the most vigorous of the New Deal appointees, serving during the early 1940s and proclaiming in 1940 that "in another five years, if worker rights to organize and bargain collectively make comparable gains in industrial practice, the function of the NLRB will be reduced to that of a routine traffic officer." Messrs. Smith and Madden were, probably, the most zealous of the old NLRB members. They went out and addressed unions and labor conventions, making unqualified political speeches. Large segments of American business became convinced that they could not, and would not under the Democrats, get fair treatment with the NLRB. They continued to believe this even after comparatively moderate men, such as Paul M. Herzog, took over in the Truman days.

After eighteen years, the political situation is at last reversed. Three Democrats resigned from the Board, giving President Eisenhower undisputed control. Yet only months after the new Board has been activated the same charges are again being heard: the board is not functioning as a quasi-judicial body, as it should; it is making or revising policy "without any mandate from Congress," and so on. Labor thinks it is the gored bull now.

There are few questions on which men disagree more than on the rights of management and labor. They don't even agree on the meaning of terms and words employed in these disputes. Usually these questions involve in some way or other the basic issue of human versus property rights. No chairman of the NLRB probably was any more sure he was right in his philosophic approach to how the Board should be run than Guy Farmer. Although he served as a lawyer in the NLRB for seven years during the New

Deal, it can never be alleged that Mr. Farmer is a New Dealer. His views undoubtedly are more conservative in human versus property questions than such equally strong-minded predecessors as Messrs. Smith and Madden. That, however, does not make Mr. Farmer one whit less fair-minded, but rather reflects President Eisenhower's middle-of-the-road approach: liberal in human relations, but conservative in questions of management.

All of this, then, was in the background when Mr. Farmer and his colleagues made their first big reversal of previous NLRB policies. Two cases were involved: Bonwit Teller, in which a previous decision was reversed, and the Livingstone Shirt case, which led to that reversal. The revolution in policy is most clearly delineated in the majority and minority papers of the Board members. Messrs. Farmer and Rodgers, sustained by one Democratic member, Ivar H. Peterson, composed the majority, for Mr. Beeson had not yet arrived. Abe Murdock, fourth member and a former Democratic United States Senator, filed the dissent, which spoke for his colleagues of old.

Messrs. Farmer and Rodgers affirmed:

> "In the original Bonwit Teller case, the Board, as then constituted, found that a 'fundamental consideration' in support of its decision was the right of employees. . . . to 'hear both sides under circumstances which approximate equality.' We have no quarrel with this principle, but . . . our disagreement stems from the fact that we do not think one party must be so strangely open-hearted as to underwrite the campaign of the other. . . .
>
> "We believe that the equality of opportunity which the parties have a right to enjoy is that which comes from the lawful use of both the union and the employer of the customary fora and media available to each of them. It is not to be realistically achieved by attempting, as was done in Bonwit Teller, to make the facilities of the one available to the other. . . ."

Mr. Murdock dissented:

> "In contrast to the means open to the organizing employees, the employer speech on company time and property has the tremendous advantage of securing the undivided attention of all employees — interested, passive, and antagonistic. A carefully planned, extensive, and well-organized speech, under these circumstances, is hardly on a par with the limited time, argument, and opportunity open to the union. . . . Accordingly it is clear from the eighteen-year experience of this agency as well as from the evidence and expert opinion available, that once the pressures inherent in employer anti-union speeches delivered on company time and property are exerted, other methods of communication with those employees

are not adequate for the purposes of reply. . . ."

There can be no reconciling these contrary positions, reflecting fundamentally different concepts. Mr. Farmer is sure that his view represents the intent of Congress. He is probably right that it represents the present intent of the present Congress. But Mr. Murdock presents a formidable argument, also, in asserting that the eighteen-year precedents of Board rulings on difficult questions should have had more consideration than he believes Messrs. Farmer and Rodgers entertained.

THIS is the type of ruling that makes labor unions see cold and stormy weather ahead. For other reasons, so do some employees of the NLRB. No one can say that Guy Farmer has not been frank in his public remarks. Weeks ago he warned that the NLRB must be staffed by people "who have a passion for impartial administration" and "who believe in our program." That Mr. Farmer has raised so prominently this matter of "our program" suggests to many that he feels the Board has been so grossly one-sided in the past that substantial counterbalance is required. Certain key employees have been with the Board since its inception. They grew up in the Government service at NLRB. In the past some of them have had a lot to do with drafting decisions, which often meant virtually making decisions. Mr. Farmer stopped this practice but he does not know, yet, how many of these key people will "devote themselves openly" to "our program." He knows who they are, where they are—many are in the regional offices and not in Washington—and they must either dovetail into the Republican philosophy which now prevails (which seems unlikely) or get out.

It seems unquestionable, therefore, that employers will have a more friendly reception in proceedings before the NLRB than ever before. The "captive audience" reversal, turned out to be a test case, though not intended as such. It is, from labor's viewpoint, the tip-off. There have been other signs of changes to come. Mr. Farmer's concept of the chairmanship and its duties seems to be fairly rigid, or legalistic. "I took an oath to administer the statute, not someone else's view as to what the statute means." As he views the law, it was designed to set broad policy in labor relations but not to adjudicate every type of labor-management dispute from a steel strike to that involving washroom attendants at Grand Central Station. Henceforth employees of small firms, garages, laundries, any small manufacturing or service enterprises, will find

it increasingly difficult to obtain recognition by the NLRB.

Mr. Farmer's view of bigness in bureaucracy concurs with President Eisenhower's. He wants to see the states assume responsibility for resolving many labor disputes that the Federal Government has accepted up to now as routine. He wants, like the President, more decisions in this field (as in others) at the state or local level. He has told the NLRB's regional offices to "voluntarily limit our jurisdiction (for) I strongly advocate a gradual but nevertheless marked withdrawal of the hand of the NLRB from strictly local disputes." He will have the NLRB handle only those matters which have "a real and substantial impact on interstate commerce."

This, like the "captive audience" reversal, represents a big break with the past and one which labor unions are not happy about, believing that as a rule of thumb they will fare better in labor disputes under Federal jurisdiction than state or local. It can be persuasively argued, however, that this policy could be substantially "pro-public" by compelling more responsibility than often has prevailed in years past on the part of both parties to labor disputes.

A field where more responsibility, especially on the part of labor unions, will be demanded by the NLRB will be secondary boycotts. Already the Board has ruled against unions on this issue which has become increasingly important in recent years. Mr. Farmer himself, in an interview with the writer, indicated that secondary boycotts in labor-management disputes are going to be looked at with a harder or more critical eye than in the past. Mr. Farmer wants strikes settled by the participants on the merits of the dispute alone, without economic pressures which unions often have brought through the various secondary devices, such as sympathy strikes, flying sympathy squadrons, and similar sympathy maneuvers.

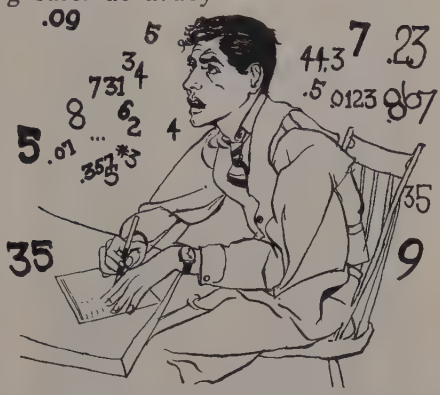
How much these new policies will be strictly "pro-public" no man today can say. Not until the Republicans elected a President was it really possible to give the pendulum a swing in the direction of management, which is what Congress, in its heart, really wanted out of the Taft-Hartley Act. All but the most partisan would probably concede today that a reversal of the pendulum has been overdue. But if the Farmer policy really is to be pro-public, the pendulum will not be permitted to swing as far in the direction of management as it once swung toward labor.

An hour of balance seems at hand. ■

The way we collect facts and figures on the economy bears re-examination in the interest of greater accuracy

How Good Are Statistics?

by Arthur Moore



WE IN THE United States are a statistics-happy people. We are, therefore, usually cooperative when someone approaches us with a questionnaire and asks us to reveal information about ourselves of a more or less personal nature. Public opinion poll-takers, market research people, consultants and sociologists—all these and many others daily send interviewers throughout the country to tap vital information which we as private individuals carry around in our heads. But no single group or organization conducts a hunt for statistical information on so vast a scale affecting almost every phase of our daily living as does the Government of the United States of America.

Of primary importance to all of us is to determine how accurate these available statistics are; for obviously we defeat our own purpose if we should rely upon statistics whose variation from 100 percent accuracy is so great that we predicate decisions on misinformation.

The science of collecting statistics has come a long way during the past generation. We still have some way to go. Let us turn to a typical survey-interview which involves a Mrs. Olson—typical housewife. Now, Mrs. Olson knows it is important to tell the truth when questions are put to her. But now that she is actually sitting down with the friendly young woman from the Bureau of the Census, she wonders how she can give truthful answers in instances where she does not know what the truth is. But she has to give some reply, so she decides to judge the relevancy of her own answers before speaking.

Mrs. Olson tells the interviewer

Arthur Moore is with the Washington Bureau of McGraw-Hill Publishing Company.

that she has only three more payments to make on her bedroom furniture. That is a simple statement of fact. But when she is asked about the line of work her husband is engaged in, Mrs. Olson has to think. Tom had been laid off a week ago. There is some talk that the plant will reopen in another week or ten days. But there is also talk that the plant will not reopen for several months. In addition, Tom has a half-promise of another job. It is a temptation for Mrs. Olson to say that Tom is working as usual. But after some hesitation she says: "Tom lost his job last week and he is looking for work now."

WITH these words, another bit of information about the national economy starts on its way through the vast pipeline which carries statistics to Washington. All of us look to volunteers like Mrs. Olson to report on employment trends—perhaps the single most important indication of what is happening to the economy.

Vital matters of public policy, such as aid to distress areas, and even the size and nature of tax cuts, are influenced by what people like Mrs. Olson say. In addition to unemployment, what we know about industrial production, personal savings and retail trade rests on the accuracy of such replies. Sometimes answers come from housewives; sometimes from the vice president of a great corporation. But in every instance, the accuracy of such answers stems back to a matter of personal integrity and a willingness to give private information in a public cause. This is at the root of the biggest statistical reporting service in the world.

Yet, Federal statistics are being criticised. Their accuracy is being questioned.

Something obviously has been wrong with unemployment figures. Even the Census Bureau says it has been understating the number of people looking for jobs—probably over the past several years. It devised a new survey and tried it last January. The result was a surprise: a rise of 728,000 in unemployment. That is not such a large number compared to 60,000,000 still at work. But it was a 30 percent rise in the number of jobless, just the same.

The trouble did not lie with volunteers such as Mrs. Olson. The experts agree their reports are still reliable. But it was ten years ago that sixty-eight areas were selected as typical of the whole country. Since then, industry has spread into the South, Southwest, and to the Pacific Coast; sixty-eight areas were no longer an accurate miniature of the country. The new survey is based on 230 areas. Officials say

that is one reason it turned up more unemployed than the old one showed.

Other weak places are being pointed out by businessmen and labor leaders. Let us look at some of them.

The number of new houses being built is actually not known, though this has long been recognized as a key indicator to economic trends. The big trouble is that no dependable information comes from places where building permits are not required, such as fast-growing outskirts of cities.

ANOTHER blind spot is lack of figures on the "fix-up" market. You have had a part in this if you have added a bathroom to your home, or made the basement into a recreation room. It is a big business—but nobody knows just how big. Industry experts guess it runs anywhere from a third to three-quarters of the amount spent on new homes. They wish they really knew.

The amount of money you and your neighbors spend each month in retail stores is the key to many business and Government decisions. But figures drawn are sketchy from the small, independent stores. The estimate, published each month, is based on such a small number of stores that statisticians warn it cannot be used as a guide to sales in any one state, or in any one class of store.

Businessmen and Government officials are particularly concerned these days with the amount of unsold goods in stores and factories. So are the people who make these goods. But the Government itself rates figures on inventories as among the worst it gathers.

An even more important figure is the amount saved by the people as a whole. This covers the amounts we put into savings accounts, pay on mortgages, and invest in Savings Bonds, etc. If we were suddenly to start saving more than usual, business turnover would be dealt a heavy blow. Despite its importance, the figure on savings has been described by Government experts as among the "least satisfactory."

IT IS A surprise to most people to learn that Government statistics contain so many rough estimates. Americans like figures. It somehow suits our national character to like the specific. Where a Britisher or a Frenchman is satisfied to use some such phrase as "a great many," we feel more comfortable if we can say "85 percent," or something equally as precise. We are the greatest figure-gatherers and figure-quoters on earth.

This national aptitude has paid off. Despite the current flare-up

of criticism, our Government statistics are the wonder and envy of other countries. They send a stream of experts here to find out how we do it.

The capstone of our Federal statistics is the over-all figure which economists call gross national product, or just GNP. It measures the total value of all goods and services produced. It tells us how big we are, and in a general way, how business is. Americans invented GNP as a measurable concept. But even this proud achievement is now imperiled. A committee of experts from private life recently conducted a study of the Government's basic statistical programs. They warned that the GNP figure is in danger of becoming a hollow shell.

This group said other harsh things. In a report to the Secretary of Commerce, it talked about the "erosion" and "attrition" of fact-gathering programs. In particular, the group recommended a reversal of budget policies which, they said, had "buffetted" and "damaged" key programs.

These experts also conducted an elaborate study to find out whether business really depended on Census Bureau findings. The answer was a ringing "yes." Census information is used to measure the market potential of a proposed product. It is used to locate stores and as a guide to where salesmen should be placed. It is used to select locations for warehouses and new manufacturing plants. It helps forecast sales. It plays a vital role in helping industry to decide whether long-range investments in new plant and equipment will be necessary. These are just a few of the ways business uses Federal statistics.

LABOR spokesmen have joined in the criticism. Practically every issue of both CIO and AFL publications expresses concern over the state of statistics. Members of both political parties have become disturbed. Last year, the Government's own Office of Statistical Standards made a special report which warned against accepting many Federal figures at face value.

Does all this mean that statistics are suddenly and unaccountably worse than before? The answer seems to be this:

So long as the boom rolled along without a hitch, most people took statistics pretty much for granted. Statistics were accepted as showing what everybody knew anyway —that times were good. Professional economists warned at times that our figures were going haywire. Few listened. But when business started to ease off last July, that was something different. Everyone wanted to know

exactly what was happening, and why. When statistics could not provide the answers, all the criticisms of the past ten years came suddenly into sharp focus.

MOST of these criticisms center around three developments.

First, the economy has grown away from the guideposts of the past. The inadequacy of sixty-eight areas to accurately reflect unemployment is a case in point.

Second, we need greater accuracy than ever before. Rough estimates, good enough once, will not serve. Private decision-making has been enormously complicated by new inventions and developments, population growth and the migration of industry. Government decision-making has been complicated by the Employment Act of 1946. This act, adopted by a majority of both parties, and warmly endorsed by President Eisenhower since taking office, pinned responsibility for a high level of employment on Government. This is what the President had in mind when he said the full powers of the Government will be used to check a downturn just as soon as the need clearly is at hand. Plainly, this policy is terribly complicated when the statistics themselves are in dispute.

Third, the basic fact-gathering programs have been starved for funds. Some have been reduced below the level of efficiency. Funds for others have been denied altogether. These include nine basic census enumerations originally scheduled for last year or this.

THE money situation may change. The Eisenhower Administration, through Commerce Secretary Sinclair Weeks, is asking for a restoration of $8,500,000 to begin with. Even if the census enumerations are approved by Congress, all the statistical problems will not be solved. There will still be some hazy areas, some guesswork and some unreliable estimates. But the enumerations would come up with the solid, basic foundation of detailed facts, on which the month-to-month figures of economic trends are based.

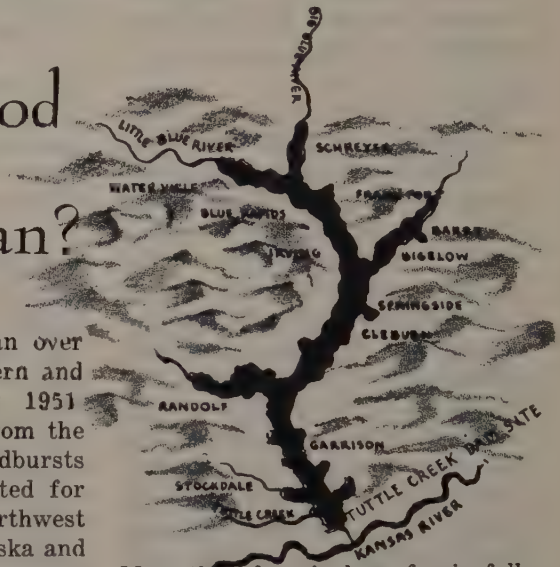
The Administration is hoping Congress will go along, if only because those statistical "working materials"—the monthly figures on unemployment, retail trade and industrial output—are the best signposts we have to a stable and prosperous economy. ■

Air Travel Up

AIR TRAVEL now constitutes more than 60 percent of all travel between the United States and foreign countries. More than 1,700,000 persons traveled by air between the U. S. and foreign countries during 1953.

The controversy at Tuttle Creek between local and Federal groups reopens the old problem of upstream vs. downstream control

Which Flood Control Plan?



A HEAVY RAINFALL began over wide areas of northern and eastern Kansas in May 1951. Thunderheads rolled in from the west, and furious cloudbursts punctuated rains that lasted for three and four days. Northwest Missouri, southeast Nebraska and southwest Iowa were also soaked steadily during the late spring and early summer.

By the first week of July some Kansas communities had had thirty inches of rain, more than the normal average for a whole year. Fields and pastures became waterlogged. Run-off water swelled creeks and streams into torrents, and the main rivers rose ominously. The city of Manhattan, at the junction of the Big Blue and the Kansas Rivers, had already seen two floods; a third flood threatened when a great storm began in the northeastern part of the state on July 9 and continued throughout the 10th and 11th. More than four inches of rain fell in one day on the Blue River valley, while along the Kansas as much as twenty inches were recorded in three days.

Both the Big Blue and the Kansas were soon in flood, and the waters bore down on Kansas City, where the Kansas joins the Missouri. On Friday, July 13, all the city's dykes—which were 65 percent completed—were overtopped. The rush of water was estimated to be twice as great per second as in the flood of 1903, and one-third greater than in the flood of 1844. Maj. Gen. Lewis Pick, then chief of the Army Corps of Engineers (one of

several Federal agencies charged with flood control), reported that the torrents pouring over Kansas City's levees looked "like Niagara Falls." The flood smashed on, and by July 22 the Mississippi crested at 40.28 feet at St. Louis, about a foot less than the all-time high in 1844.

Forty-one lives were lost; thousands of homes were destroyed; and 518,500 persons were forced to flee. Two million acres were flooded. Kansas, Missouri and Oklahoma were declared disaster areas, and the whole nation felt the consequences of this "billion-dollar" catastrophe. In Kansas City, seventeen large bridges were swept away, twelve out of thirteen railroad lines and fifteen out of seventeen major highways were crippled. The city's economic life was paralyzed, and some drowned industrial plants located on the floodplains adjoining the rivers' normal channels never reopened their doors.

Even as the floodwaters receded elsewhere, the farmers of the Blue River valley in particular saw their land menaced by new waves of water; their valley became the focal center of a national controversy that is still unresolved.

The Army Engineers, surveying the destruction, asked for funds to begin work on a dam across the Big Blue at Tuttle Creek, a small stream which flows into the Blue six miles above Manhattan. They proposed to clear thousands of acres of rich farmland and displace some 4,000 people.

Though a dam at Tuttle Creek was first authorized by the Flood Control Act of 1938, specific funds for it had never been appropriated. It later figured conspicuously in the Pick-Sloan plan (named after W. G. Sloan of the Bureau of Reclamation and Gen. Pick) designed to tame floods throughout the Missouri basin.

In late July, Gen. Pick said that a Tuttle Creek dam, costing about $88,000,000, and two other large dams costing a total of $38,000,000 would definitely have kept Kansas City dry. The Missouri River States Commission, made up of the Governors and other representatives of ten states, promptly demanded that the whole Pick-Sloan plan be carried to completion. Opposition to the plan came from other quarters, led by the Kansas Flood Control and Soil Conservation Association, which upheld the view that small dams upstream combined with proper "watershed management" could eliminate the need for many big dams like the one proposed at Tuttle Creek.

THUS, the whole flood-control controversy became an urgent public issue again, after having

been neglected while the rivers were docile. This often bitter quarrel revolves around the essential point of big dams versus little dams, and is aggravated by the conflicting interests of cities downstream and farmers upstream.

The quarrel had not assumed its present importance when the Army Engineers and the Bureau of Reclamation, submerging some of their mutual rivalries, got Congressional sanction of the Pick-Sloan plan in 1944. The Engineers were to construct levees and dykes and build large dams downstream to control mainstream floods. (The Engineers have been active in flood control since the disastrous Mississippi floods of 1928.) The Bureau was to construct relatively smaller protective works upstream and on tributary streams.

The Department of Agriculture (since 1936) has also played a part in flood control, tying in its water and soil conservation programs. About 1946, a group within the Department came to believe that conservation measures and small upstream dams, when employed together, would best answer the flood threat and inundate far fewer acres of farmland.

CONSERVATION measures, as experience has shown, reduce run-off water and tend to keep rain where it falls. They include the selective cutting and planting of trees, strip cropping, terracing, contour plowing, sowing certain kinds of grass, and sometimes altering radically the allotment of ground in a given area to fields, pastures, woodland and rangeland. Better use of the land can reduce the amount of run-off water by 20 to 50 percent. This not only saves fertile topsoil but cuts down on the amount of sediment in rivers, which over the years can block a harbor or silt up a dam and make it worthless.

However, as L. B. Leopold and Thomas Maddock point out in their authoritative book, *The Flood Control Controversy* (published in May under the sponsorship of The Conservation Foundation), no one doubts that conservation can improve crop yields and bring about other desirable effects. But the big question is can conservation measures retard floods? The authors conclude, along with the Department of Agriculture, "that the effect of land management measures on great floods, such as the Kansas River flood of 1951, is not significant," though they can limit the damage of lesser floods.

The 1951 flood was on the order of a one-in-a-hundred-years disaster. Such floods "almost invariably" happen only when abnormally heavy rains have lasted for long periods or when snow

begins to melt on frozen ground. The former was the case in Kansas: the soil was saturated, and water ran off into rivers.

WHAT about small dams and reservoirs upstream? First of all, as Leopold and Maddock observe, such dams are only relatively small. Those now being built, usually of earth, average fifty feet in height. The permanent lakes behind them average fifty acres, and extend to 200 acres when water is spilling over the dam. They can, it has been shown, control small and moderate upstream floods. Though in some cases such relatively small dams can eliminate the need for big dams downstream, they cannot curb catastrophic floods. As a general principle, Leopold and Maddock assert that, "An upstream program cannot substitute for a downstream one, and vice versa." Since absolute security from floods would be fantastically expensive, a certain amount of protection is a matter of balancing costs against benefits and of estimating the relative values of what must be sacrificed and what is to be protected.

In the Blue River valley, such considerations do not seem abstract or academic—far from it—since so many farms and homes finally depend on them. The valley's residents still pin their hopes on some plan that will do away with a big dam at Tuttle Creek.

In December 1951, after studying the pattern of the flood, the Army Engineers made public their revised program for the Kansas River basin. Its estimated cost was raised from $300,000,000 to $700,000,000. Twenty-two new dams and five local protective works were proposed, bringing the whole system to thirty-four dams and sixteen local works. Water-storage capacity was to be nearly doubled. This amounted to an admission—seized upon by the anti-big-dam Blue valley forces—that Gen. Pick had been wrong in July, and that even with a dam at Tuttle Creek, Kansas City could not have been saved. In fact, the Engineers had designed their first system to meet a flood the size of that of 1903, only one-half as bad as the 1951 catastrophe.

In the revised proposals there would be no permanent lake behind the big earthen dam at Tuttle Creek, but its "dry reservoir" could hold back about 740,000,000,000 gallons of water if a flood threatened. Fifty-five thousand acres would be subject to flooding and would have to be cleared. Nine small towns, 59 miles of single-track railroad, 120 miles of telephone lines, 109 miles of power lines and 12 miles of oil and gas lines would be destroyed. And some of the nation's richest

farmland would have to be abandoned.

Though Congress voted an initial appropriation of $5,000,000 for the dam in 1952, the residents of Blue valley refused to give up. Their leaders addressed meetings of worried farmers throughout Kansas and carried the people's protests before a national audience. A movie, "The Tuttle Creek Story," was filmed locally and has been circulated widely.

DURING the election campaign in the summer of 1952, controversy flared up when a caravan of housewives from the Blue valley set out for Kansas City to petition President Truman. Spokeswomen pleaded for their homes and told the President that many small dams would serve better than the Tuttle Creek dam. He gave them no hope, they reported, saying the dam should be built and that "the people in each valley will feel just as you do, but it is the only way to get flood control."

The Blue valley people had the satisfaction of defeating their Republican representative, Albert Cole, who had voted for the appropriation. They returned Howard S. Miller, a Democrat (a shocking thing for Kansas), and an enemy of the dam.

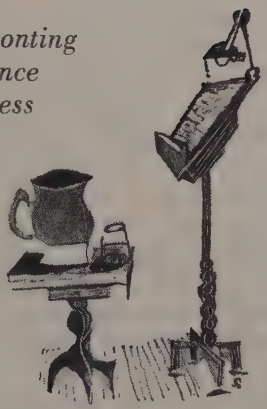
Yet that fall the Engineers' big earth-movers and bulldozers rolled into the valley and set about their job. Work went on until December 1953, when it was stopped for lack of money. Several hundred acres were scraped bare, and a low mound of earth now lies across the valley at Tuttle Creek, reminding the inhabitants how grim their future may be. Though beleaguered, they are still hopeful the dam may never be finished.

THE nation generally has a stake in the controversy, and we must hope that it will be resolved on its merits. Perhaps in this case small dams would be more effective than a large one, if other measures are instituted. As Leopold and Maddock put it, floods should be considered a "natural attribute" of rivers. Therefore, zoning of a river's floodplains to restrict building there is essential to reduce flood loss. Furthermore, it is only just that those who benefit from flood-control projects should be taxed for some part of their cost. It would seem a whole new approach to the manner in which such projects are financed remains to be explored.

But no one can dispute that an integrated program of flood control—balancing irrigation, power, and conservation benefits—is essential both to develop "underdeveloped areas" within the country and to limit the violence of catastrophic floods. ■

From the Rostrum

A top manager states the challenge confronting all management people who seek to enhance the public good through industrial progress



The Managing of Industrial Progress

by H. W. Prentis, Jr.

IN APPROACHING the subject of my address, "Industrial Progress of the Future—A Challenge to Top Management," let me say at the outset that the manager is the dynamic, life-giving element in every business. Without his leadership the resources of production remain resources and never become production.

Management is also a distinct and leading group in any industrial society. On its performance ultimately depends the standard of living of a nation as well as the strength of its social beliefs, its social cohesion and its ability to withstand the poison of totalitarianism.

What do we mean by "manager"? What distinguishes a manager from the businessman, on the one hand, and from the administrator in government, the armed forces or the church, on the other? A manager deals with economic resources. He aims at economic performance and is measured by economic results. That distinguishes him from the administrator in any non-business institution.

The businessman behaves purely in adaptation to economic forces which he neither creates nor controls. His behavior is defined in the economist's concept of "maximization of profits," his procedure and conduct being aimed merely

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at making the best of whatever his environment and the physical forces in it can produce.

By contrast, a manager manages. In other words, to be a manager implies the responsibility for attempting to master the economic environment—and the social environment, too; for planning, initiating and carrying through changes in economic conditions; for constantly pushing back the limitations of economic circumstances on the enterprise's freedom of action and on the economy's standard of living. What is possible is only one part of a business manager's job. What is desirable in the interest of the enterprise and society in general is the other part.

TODAY, management is confronted with tremendous technological change—a change which creates outstanding opportunities for constructive and productive management action all over the world. This new technology is not merely a matter of gadgets or of machines. It is a new principle of production, an intellectual, even a philosophical concept—and that of course gives it its impact, its importance and its penetrating power.

In the United States of America, the coming of this new technology has provoked a veritable deluge of fantasy and speculation, a torrent of pseudoscientific fiction. Dreams of the "push-button" factory abound, in which robots turn out mountains of goods effortlessly while human beings by the millions find themselves in enforced idleness. The new technology, we are being told, will require giant business to grow even bigger while squeezing out the small and independent enterprise. It will require, allegedly, such capital investments as only government can supply. It will force us, it is asserted, into the planner's paradise: an economy in which government collects, controls and directs all the capital accumulations of the nation. At the same time, we are being told, the new technology will make management unnecessary. All it will need are technicians.

I do not know how much of this stargazing is going on in countries other than my own. But I do know that there is no truth in it. Indeed, we do not have to theorize about the meaning of the new technological changes. We can see and inspect them at work in hundreds of plants and factories now functioning.

LET ME say first that the popular belief that the new technology will replace human labor with robots is utterly false. On the contrary, it will employ more people and, above all, much more highly

skilled and more highly trained people. It is no longer generally believed, as it was a scant twenty years ago, that mass production methods—yesterday's technological change—throw people out of work. Wherever such procedures have been introduced, we all know they have rapidly increased the number of job opportunities in industry. For every livery stable, for example, that the automobile drove out of business, there are today half a dozen or more gas stations, automobile dealers and automobile repair shops—owned locally and independently, and providing a better living to many more people than the livery stable ever afforded.

But it is still widely believed that mass production replaces skilled labor by unskilled labor. We know this, too, to be a total fallacy. In the United States, for instance, where mass production methods have probably been applied on the broadest scale thus far, the one class of employees that has been growing most rapidly in numbers and proportion are skilled and trained people. And the truly unskilled laborer of yesterday who contributed only his brawn has become the semi-skilled machine operator of today—a man of higher skill and education, producing more wealth, and enjoying a vastly higher standard of living than before.

The technological changes now occurring will carry the same process a few steps further, but they will not make human labor superfluous. On the contrary, they will require tremendous numbers of highly skilled and highly trained men—to design new tools, to produce them, to maintain them, to direct them. Indeed, the major obstacle to the rapid spread of these changes will almost certainly be the lack in every country of enough workers who possess sufficient skill and training.

IT IS similarly *not* true that the new technology demands the giant enterprise, let alone that it will squeeze out the small, independent producer. In some industries it may well increase the size of the most economical unit. In others—one example is likely to be the production of raw steel—it is likely to make significantly smaller units economically possible, if not desirable. More important: the new technology requires much greater delegation of decision-making authority to the management of small units than was needed under former conditions. An enterprise in which all decisions were centralized at the top would become unable to live and to survive.

It is also *not* true that the new technology brings a tremendous increase in capital requirements.

Investment per production worker will, of course, rise. But there is nothing in our experience to make it appear likely, let alone certain, that investment in terms of constant value per unit of output will significantly increase.

Above all, however, the new technology will not render managers superfluous; it will not convert them into mere technicians. On the contrary, it will make tremendous demands on management, on its competence, its vision, its economic knowledge and skill, its ability to make rapid decisions, its flexibility—in short—its ability to manage. So vital are these requirements that they will make it absolutely impossible to operate the new technology and to derive its benefits under any form of centralized planning from the top. On the contrary, it will be even more important than it is today that management decisions be made as far down as possible in the organization. Hence it will be even more essential that management at the bottom of an enterprise be as capable and as competent as it is in the middle or at the top levels. Any society that were to attempt to get rid of the free management of autonomous enterprise and to run the economy by centralized governmental planning in the era of the new technology would perish miserably, as did the great reptiles of the Mesozoic age whose small and completely centralized nervous system proved unable to adapt itself to a changed environment.

WHAT, then, concretely are those new demands that technological changes are about to make on management—its vision, knowledge, skill and competence?

First, the new technology requires that management learn to understand fully what is involved and add a new dimension to its competence and to its vision.

The new principles of production demand, secondly, that management create markets. It can no longer be satisfied with the market as it exists. It must create customers and markets by conscious and systematic work. It must focus its effort on creating mass purchasing power. To that end it must constantly work on the long-range job of changing consumers' habits and of educating them to an understanding of the new opportunities that rising incomes and advancing technology open up for a higher standard of living.

In the third place, the new technology requires an enormous increase in the number of trained and educated people in business—an increase of almost astronomical proportions. Management has a tremendous responsibility in finding people of the proper abil-

ity—no matter what their birth, religion, racial origin or formal education; in giving them the vision they need; and in conveying to them the knowledge, the skills, and the understanding they require. In every society of which we have any knowledge in the past, the economy could afford only a very small number of educated people. Under today's industrial conditions, for the first time the opposite is the case. Our real problem is that we cannot afford large masses of uneducated people. The more educated, the more conceptually trained, the more managerial people we possess, the stronger we become.

In the fourth place, we must never forget that this also creates a tremendous problem in the managing of people. Indeed, our methods of management by command have already become obsolete. The highly trained, highly educated employees we need in the business of today and tomorrow, people who will have to work by using their own judgment and their own knowledge, cannot be ordered about. They must be *led* to give their best voluntarily. Thus, the new technology involves new competence, new skill, and a new basic understanding in the management of working people.

Fifth, in the interest of the business as well as in that of society, we will have to learn to make employment as stable as possible. Here, let me emphasize, I am not referring to the guaranteed annual wage some of our union leaders are talking about. The attempt to guarantee security of employment is as futile as an effort to insure perfection. It can only end in bitter disillusionment. And in the process of attempting it we would tend to paralyze our economy. But the interests of the individual business enterprises themselves, as well as those of society, demand that we go as far as is economically sound in the direction of stabilizing employment. To get rid of large masses of people under the new technology when economic conditions change for the worse will be very expensive for business. Far too many of its people possess singular skills and knowledge which, once lost, are not easily replaced.

Sixth, the new technology imposes upon management decisions for an even longer future than the one for which we now have to make plans and decisions. Hence, management obviously needs much better tools to make long-range decisions than we now possess; tools of economic analysis which go far beyond the attempt to read the business cycle to which so many managers and economists confine themselves today.

In the seventh place, the need for long-range decisions also means that manager development becomes vital in every business. For only the deliberate training of managers who can rectify the positions management takes today can convert long-range decisions for an uncertain and an always unknowable future into rational and successful ones for tomorrow. In short, management development, is a vital necessity under modern industrial conditions.

FINALLY, the new technology also makes heightened demands on the social responsibility of management. It requires in particular that we so manage as to root our decisions and the actions of the enterprises we are responsible for in: the principles of Liberty, not Compulsion; Reason, not Force; Leadership by objective goals, rather than by command or fear; Morality, not Materialism; Religion, not Atheism.

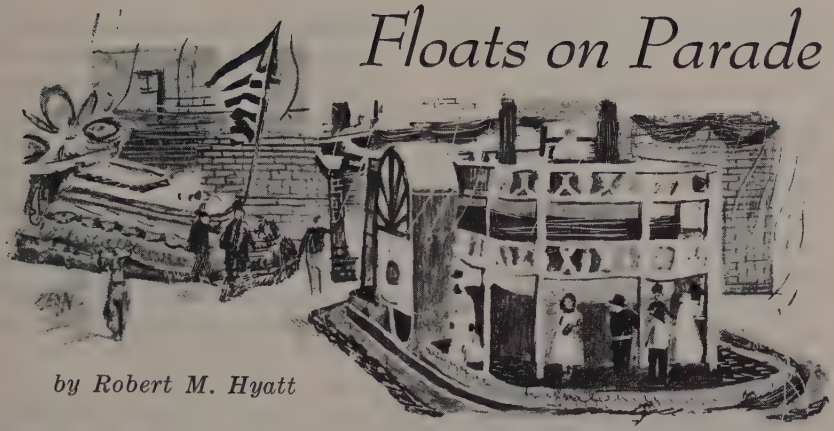
Perhaps you are surprised that a hard-headed businessman like myself defines management in terms of morality. Perhaps you may say to yourself that these are the things one is expected to say in a speech, but they can be forgotten when one returns to his daily work. Let me therefore stress that it is precisely because I am a hard-headed businessman that I lay the foundations of management on moral values. My working life has paralleled the great industrial revolution in the United States; it has paralleled the growth of my own company. Looking back on this past half-century, I see above all that it is the moral values, the moral foundations, that are hard-headed and practical. Leadership on any other basis misleads and ruins.

I stress this above all because I see such tremendous opportunities for management under present-day conditions. There is an irrepressible world-wide demand for a fuller, a richer, a more prosperous life, and its answer in the drive for industrialization throughout the free world.

The New technology will give strength to these forces at work throughout the free world. It will help to bring nearer the international unity of free peoples, a unity of purpose, belief and direction, based on diversity of tradition and culture, on mutual interest and on mutual respect.

But the new technology will prove beneficial to the peoples of the free world only if we in management use it properly. It requires of us more than ever that we, in managing, root our decisions and actions on the bedrock of moral principles, that we lead not only through competence and skill, but through vision and responsibility. ■

Floats on Parade



by Robert M. Hyatt

It's a big business—for George Kelly—to create those eye-filling spectacles which are the highlight of every modern parade

ONE NIGHT in Carson City, Nev., a stranger peered into a haunted-looking old stone building and got the shock of his life. Inside lay a gleaming spaceship, right out of a comic-strip thriller, and crouched in its doorway was a spindle-legged "man from Mars," aiming a "ray" pistol at him!

It was the stranger's introduction to Nevada's fabulous "miracle factory," the fantastic studio-warehouse of George Kelly, America's Float King. The weird "Martian" spectacle was part of an Atom Age float being built for an Eastern parade. Cost: $12,000.

Each year a score of mobile masterpieces of animation, sound and color roll majestically from this "factory," heading for prizes in the Mardi Gras, the Santa Barbara Fiesta, the Tournament of Roses at Pasadena, and many other big parades all over the country.

According to Kelly, about 170 firms in the U. S. build floats as a seasonal sideline, while regularly turning out tents, awnings, parade supplies and stage scenery. Kelly is the only exclusive float builder in the nation, and he has topped the field since 1920.

"Float building," says the stocky maestro of floats, "is a highly competitive game." It has an unusually demanding group of viewer-critics, too, he claims. "Unless you can surprise and satisfy the 30,000 folks who regularly

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Robert M. Hyatt, a frequent contributor to CHALLENGE, *specializes in articles on the amusement and consumer-industry fields.*

travel around the country just to see parades, you don't stand a chance in this business."

A ONE TIME vaudeville hoofer and funny man, Kelly built his first crude float in 1915. The shabby creations of bunting and tinsel then current never interested him. They often shook to pieces before the parade was half over. Kelly builds for permanency, and his floats are often towed across the country without any damage.

The undisputed sultan of street spectacles has many "records" to his credit: the world's largest float; the first to use living, growing plants and trees; the first real waterfall float, and so on. Kelly is the only builder of night floats —lavish creations with special lighting systems. An expert on unique effects, he is consulted by float builders in several foreign countries.

Floats which are thematically correct, according to Kelly, can be excellent educational media for children, and even adults. To him, a well-executed story-telling float, depicting an historical or other event, packs far more wallop than text or pictures. It is remembered longer.

Kelly has immortalized and given animation to a thousand sagas of history and folklore. He has "landed" Columbus and has had the Pilgrims praying at Plymouth Rock, King Midas counting his chips and the Pony Express dodging Apaches. He has thrilled curb crowds with Romeo, Napoleon, Sherlock Holmes and Mickey Mouse. During an El Paso Sun Carnival, his entry featuring Mexico's famed patriot, Benito Juarez, so touched spectators from below the border that they made him haul it into Mexico and stage a second parade.

THE rolling extravaganzas Kelly and his dozens of artisans turn out are the result of weeks of research, dozens of drawings and lots of aspirin. When he accepts an order for a float, he first visits the city where the parade is to take place and studies its proposed route—the height of buildings, width of streets, the way light and shadows will fall. If the city has one tall building dominating all others, the floats must adhere to a certain size or they will look top-heavy after the tall building has been passed.

"Broadway in New York," says Kelly, "is the only street in the land where anything goes. It's the float builder's paradise."

He claims a float is like a cartoon without a caption; if you don't readily grasp the idea intended, it is a bust. It must make its impact within thirty seconds and tell its story at a distance of twenty feet, or it fails.

The technique of building a float calls for a fair working knowledge of many trades and arts. And no patched-up job or fake can pass, for someone is sure to be present who can spot it. Kelly lays modest claim to being an artist, sculptor, chemist, plumber, electrician, engineer, florist, taxidermist, historian, geographer, tinsmith, anatomist and, "to top it off," says he, "something of a politician and gambler to boot."

KELLY likes company when he is working on a float, and hundreds of visitors watch his masterpieces take form. He especially invites children to his studio. "Kids are your best critics," he explains. "They spot more mistakes and drop more good ideas than grown-ups any day."

He cites one instance when he had finished a $5,000 float with a life-sized horse bucking a cowboy out of the saddle. He felt proud of his achievement. Then he found a ten-year-old scuffling around the float, scanning it from every angle. Finally the lad blurted, "Mr. Kelly, I don't like that horse. His eyes ain't right somehow."

Kelly looked. The cayuse *was not* just right. Artificial deer eyes had been used because they are large and lustrous. These were removed and artificial horse eyes inserted. The kid beamed. "Now he looks more like a horse!"

KELLY has had his lean years and fat ones, but there has always been much to laugh about. Once in Las Vegas, Nev., he was "working" a float with an impressive Egyptian theme, complete with Sphinx and pyramids. At some stage of the parade, pranksters smeared the Sphinx with lipstick, chalked great eyebrows on him and gave him a huge black wig. It made a ghastly caricature of the eroded old desert figure, but the judges, thinking that Kelly must have known what he was doing, awarded the float first prize.

"I didn't see what had happened until after the parade," Kelly recalls. "Then I nearly passed out. The judges begged me not to mention their little blunder. This is the first time I've told on them."

The question is often asked of Kelly: Who made the first floats? Nobody knows. But many early peoples staged parades and built floats for religious festivals and to celebrate military feats. India's bloody Car or Juggernaut, an enormous stone float of pagan symbolism, has crushed out the lives of many fanatic worshippers who cast themselves in its path. Early Mardi Gras floats depicted Biblical scenes; not so today, however. The Chinese built floats long

before the Great Wall went up.

The first floats as we know them, Kelly says, were made in France. The early American colonists built a few which stoutly sold the benefits of righteous living or patriotism.

After the Revolutionary War, parades became more common as we gained a few heroes and martyrs. Kelly says that "the four most used and abused" floats on the American scene are: Washington Crossing the Delaware, Betsy Ross and the Flag, Ben Franklin, and the Statue of Liberty. The Liberty Bell runs a close fifth.

After World War I, float-making perked up. So did public taste. With visual and audio media improving, people demanded more realism, even in entertainment.

IN SOME of his floats requiring animation of figures, Kelly employs good old manpower, or rather, boypower. In a float entered in Tampa a few years ago, the feature was an angler in a rowboat tossing on the waves, pole held over the water (real water). The boat was rocked by a tricky cam contrivance, the waves created by strategically placed electric fans. But what in tarnation caused that frisky fish to leap out of the water, first at the bow, then amidships, and later at the stern, exactly as if it were having sport with the fisherman?

"I hired $60 worth of boys to work that fish trick," says Kelly. The boys, stowed in the depths of the float but able to see up through it, manipulated three pinwheels with fish attached to rods. When one fish was up the others were down, and so on. The illusion was perfect.

GEORGE Kelly early set the pace in creating the perfect illusion with floats. Mastermind of mobile pageantry, he is a merry-eyed Irishman who enjoys crowds. He talks like a carnival man with a live pitch, spicing his patter with amusing pantomime. He eats, sleeps and dreams floats, and nothing makes him happier than to see parade crowds laugh, cry, yell, or in general applaud his efforts—provided, of course, that the floats themselves are intended to produce such emotional displays.

"Back in the old days," he admits ruefully, "I made, among other flops, a prize number I just *knew* would be received in reverent awe and silence. The crowd laughed uproariously!" ■

ABOUT HALF of American families with incomes under $2,000 a year own their own homes, while from 38 to 64 percent of those with incomes between $2,000 and $7,499 are homeowners.

—*National Industrial Conference Board*

The separately directed achievements of labor and management should focalize in mutual appreciation and job satisfaction

'Human Behavior In Industry'

A POPULAR WAY of looking upon human beings is to ask what they are like by nature. We are inclined to look for their basic motives—all of them, or at least all of the important ones—and to assume that what is true for one is true for another, that basically the American and the German, the Yankee and the Southerner, the Britisher and the Polynesian are all alike "under the skin."

Now, it must be confessed that all people do have some things in common. But if there is anything that is outstandingly true in this field it is that the social environment makes a tremendous difference. . . . In one sense we grow into being a human (that is, grow into our human habits, values, and ideals) rather than being born so. And certainly the American worker of today is no exception. If we wish to deal effectively with him we have to become familiar with some of the social movements that have made him what he is. It is not enough, in other words, to know human nature in general. It is necessary, at times, to try to understand *American* human nature and the nature of the American worker in particular. And this means looking at some of the recent changes in the employer-employee relationships in America.

The truth of the matter is that we are living in rather critical days so far as employer-employee relationships are concerned. Here, among others, two social movements have taken place, each go-

Human Behavior in Industry is based on a course for foremen and supervisors given by the authors at the Institute of Management at Southern Methodist University, Dallas, Tex. William W. Finlay is Director of the Business Institute, Antioch College, Yellow Springs, Ohio; A. Q. Sartain is Professor of Psychology at SMU; Willis M. Tate is Vice President of SMU.

Excerpted from "Human Behavior in Industry," by William W. Finlay, A. Q. Sartain and Willis M. Tate. Copyright 1954, McGraw-Hill Book Company. New York. $4.00.

ing along largely independent of the other, until they now come together in this area and furnish us with some of our most pressing problems. These two movements are (1) a loss in job significance on the part of many American workers and (2) an increasing freedom for the worker. Let's look at each of these.

THERE seems to be no doubt that many workers in the United States have lost a great deal in the way of job significance. . . . For millions of workers little initiative or opportunity to exercise judgment is left. What they are to do is carefully determined in advance. How they are to do it, when they are to do it, and where it is to be done—all these are definitely planned beforehand. Furthermore, many jobs involve doing the same relatively simple operation over and over. These developments certainly do not increase the thrill of working.

. . . Our point here is not that today's jobs are unimportant. It is rather that they *do not feel important*. They are important, indeed they are vital to the success of the business. But doing the same thing over and over, especially if no particular judgment is required, is not the most thrilling thing possible.

Before we leave the point, one more observation: we are not suggesting that we "turn back the clock" and do away with mass production. We couldn't do that if we wanted to, and we don't want to. Maybe we could do something to make jobs more thrilling and less deadening, but actually we probably can't do a lot about the jobs. Our real problem is to help workers get a sense of significance from the jobs they are doing rather than to remake thousands of jobs. . . .

So far we have talked about one thing that has caused a loss in job significance to the workers, and that is mass production and its effect on jobs. We want to mention two more, centralization of authority and the commodity conception of labor.

We all know that the present is an age of centralization. Maybe the trend has been slowed up a little recently, but certainly it has been carried pretty far. Now a certain amount of centralization probably just naturally goes with bigness. But sometimes we've carried it beyond what is necessary. Things that should have been decided "down the line," or actually in the work area itself, have gone "up the line," or to a staff function. . . .

The final point in the loss in job significance is the commodity conception of labor. This is a conception which holds that the only interest that the owners or man-

agers of a business have in workers is the profit that can be made from their services. It holds that we are never interested in workers primarily for what they *are* but only for what they can *do*. Thus, if an owner employs ten people to work in his drug store, he is never really interested in them—or never should be—but only in the money they can make for him. In other words, according to the commodity conception of labor, our workers are simply a means to an end and never an end in themselves.

Now, it must not be thought that this theory necessarily means harsh and unreasonable treatment of workers. Indeed the exact opposite might be true. For example, if it can be shown that to pay workers well and express an interest in their work leads them to work harder and produce more, the commodity conception of labor would insist that we pay them well and express an interest in them. But under these circumstances we never give high wages and praise to workers because we have regard for them, or love them, but rather because we want more from them for ourselves.

Unquestionably, labor must be used efficiently and an attempt made to keep labor costs down. We do not want to be understood as suggesting anything else.

And it is also a fact that labor is a means to an end. If there were no work to be done, we would hire no workers. And if our need for workers should vanish, we would have no alternative except to suggest that they get jobs elsewhere.

But our question here is: Is labor *just* a means to an end? Have we no concern for our employees *except* what they can do for us? Or, on the other hand, do we see workers as ends in themselves as well as a means to an end?

The answer to these questions is clear. We cannot treat workers as *just* a means to an end, but must have regard for them as also having value in and of themselves. . . . Management must have and show an interest in workers because if it does, workers will work harder and more efficiently. But management must also have and show an interest in workers for another reason that is just as important: because it has genuine affection and regard for them.

A SECOND development in this area of boss-worker relationships has been the fact that in the last fifty years workers have gained a great deal in freedom and the right to be self-determining. Thus, workers now protest openly and publicly if they disapprove of a management decision, and even

strike if their unhappiness is great enough. They often talk back to the boss, at least through the grievance procedure. And they frequently insist on having a voice in determining things that affect them.

All this is a great change in a short time. Fifty years ago most people—including most bosses and most workers—believed that the boss owned the jobs, in the sense that he could give them to anyone he chose, at any pay rate that could be agreed upon. Furthermore, the worker was to do as he was told—that's what he was hired for. And the boss kept him as long as he wanted him and then let him go, for any reason or for no reason at all. What did it matter if the worker lost his job because of the color of his hair or the shape of his head or the color of his skin? Wasn't the job the possession of the boss, and couldn't he do with it whatever he wanted to?

ALL this, of course, has changed decidedly. A number of states and the Federal Government have adopted anti-discrimination provisions and have gone on record to say that there are circumstances under which a boss may not refuse to hire a worker and circumstances under which it is illegal to separate him from the company. . . .

More striking and more influential on employer-employee relationships, of course, is the growth in size and power of the labor union. Unquestionably, unions have taken from management—or insisted on sharing with management—the right of decision in many matters affecting workers and their bosses, and this has led to a certain amount of independence and feeling of freedom on the part of many workers. And when we consider that one out of every four people gainfully employed in the United States is already a member of a labor union, it is evident that this desire for independence is powerful and widespread.

IT MAY very well be that our third point has been the most influential of all in contributing to the freedom of the worker: the *growth in education and communication.* Some of the changes in this area have been simply unbelievable and may very well be incredibly far-reaching.

It is hard to realize how much this has changed us— and our relationship to the boss. A few years ago he could tell us how they did it a thousand miles away, and we'd believe him for we'd never been there to see. But today, what he says had better be good. If he's wrong the chances are somebody's been there, and will prob-

ably let the boss—and the workers as well—know about it.

WHAT will be the result if these two trends continue, if workers each year feel the significance of their jobs less and less and yet each year have more and more freedom to do as they wish?

There are, of course, two possibilities, among many others. One is that the two trends will continue unchecked, with increasing worker demands of more and more for less and less. Now there is no reason why workers should not be paid increasing wages as the years pass and the economy expands and likewise no reason why human beings should not be freed from backbreaking toil. But these are benefits that must be *earned,* and not merely given. The truth is that demands of more and more for less and less of real contribution can really lead eventually only to economic bankruptcy, for there is clearly a limit along this line beyond which the economy cannot be pushed....

Fortunately, there is the other alternative: that employers and employees, working together, may recapture some of the thrill of working, the joy of achievement, and more and more of us come to work because we really *love to work* as well as *have to work.* ■

Power from the Sun

A PROBLEM that has stumped scientists for centuries moved nearer solution recently when Bell Telephone Laboratories demonstrated its new solar battery which converts sunlight into usable electric current.

While Bell's battery is not the first device to convert solar energy into electric current, it is the first to do so in sufficient quantities for practical use. At present, the battery converts about six percent of the solar energy that strikes it into electricity, which compares favorably with the efficiency of most engines now in use. And, Bell technicians predict, there is no reason why efficiency won't soon be stepped up to ten percent.

The battery itself consists of eight small discs of silicon. The silicon has been specially treated to make it a converter of solar energy. When light strikes one of the discs, certain electrons on the surface of the metal are set free, creating enough current-flow for one-fifth of a watt of power.

Since nothing is consumed or destroyed by this conversion process, such batteries should last indefinitely. At the moment, Bell hasn't gone beyond applications that require only minute amounts of power such as a small telephone hookup, short-range radios, etc. But the potential uses appear unlimited once the problem of mass production costs has been licked.

Far more than a textbook history, this monumental work is the last product of a brilliant and original economist

Reviewed by Gottfried Haberler

2,000 Years of Economics

HISTORY OF ECONOMIC ANALYSIS, by Joseph A. Schumpeter. Edited from manuscript by Elizabeth Boody Schumpeter. New York: Oxford University Press. $17.50.

ONE OFTEN FINDS that a scholar who has constructed his own distinct theoretical system, strongly believing in its originality, validity and usefulness, has not had the time or patience to delve deeply and widely into the history of his own science. Or he conceives that the development of his own science tends toward and culminates in his own theoretical system.

On the other hand, those erudite men who make of the history of their science their special field seldom display great originality, or even strong convictions, in theoretical matters.

Joseph Schumpeter was one of those rare men who succeeded in combining immense erudition with theoretical acumen and strong theoretical convictions. His almost uncanny faculty for sympathetic comprehension and fair evaluation of other men's work went hand in hand with a firm belief in the validity of his own and with critical perception of weaknesses in the theories that he reviewed.

He died in his sixty-seventh year, before he could fully gather the fruits of a rich and active life devoted to scholarship and teaching, apart from a short foray into politics and business in his

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native Austria immediately after World War I. He taught at Harvard from 1932 until his death in 1950.

The present monumental volume, edited with infinite care by his wife Elizabeth from partially unfinished manuscripts, is a work of tremendous power, learning and perseverance. Schumpeter brilliantly displays his gifts in organizing and presenting a vast material, extending from the Graeco-Roman world through the Middle Ages, to the modern world and our own times. It is a comprehensive "history of the intellectual efforts that men have made to understand economic phenomena, or, which comes to the same thing, the history of the analytic or scientific aspects of economic thought."

THE STORY begins with the ancient philosophers, followed by the medieval scholastic doctors, by the philosophers of natural law, the French physiocrats and English mercantilists of the 18th century. Approximately one-third of the book is devoted to the so-called "classical" period from the time of Adam Smith to about 1870, and another third to the modern period up to John Maynard Keynes.

The core of Schumpeter's own scientific work is his dynamic theory of capitalist development, the basic ideas of which he had clearly conceived and hinted at in various papers published during his twenties—"that decade of sacred fertility" in a scholar's life.

The center of the capitalist stage is occupied by the creative entrepreneur, who may appear in all sorts of functions—as captain of industry, builder of railroads, as banker or merchant. The entrepreneur, as distinguished from the engineer, the inventor, the mere supplier of capital and the static manager of business firms, is the dynamic innovator who carries into practice new methods of production, mining, transportation or communication. He introduces new products, new modes of marketing, and himself creates the demand for his wares or discovers new markets for them.

SCHUMPETER thoroughly discusses the qualities required for successful entrepreneurship; the role of money and credit as the mechanism which enables innovators to expand at the expense of their less vigorous competitors; the painful consequences for the latter (describing the process of innovation as "creative destruction"); and the many social concomitants of capitalist development. The business cycle, that mysterious alternation of periods of prosperity and depression, is explained

as the essential by-product of economic development.

He is not one to deny that depressions, through a more or less accidental concatenation of circumstances, often go much further than necessary (as in the case of the great depression of the 1930s) and that much can and ought to be done to mitigate their severity. However, he regards a depression or recession as a necessary and unavoidable pause, a period of breath-taking as it were, in the course of capitalist economic development. Thus, Schumpeter was emphatically opposed to the modern Keynesian notion that full employment can be maintained continuously. Schumpeter thought this impossible except at the cost of halting or at least greatly slowing down economic progress.

Schumpeter esteemed the productive power of the capitalist system and saw no economic reason at all why, if given a chance to survive, it should not go on serving mankind by furnishing an ever increasing stream of consumable goods.

But in his book *Capitalism, Socialism and Democracy*, written during the war, he took a dim view of capitalism's chances. He theorized that precisely because it is so productive and successful, capitalism breeds social changes and attitudes which create a growing hostility to itself — changes leading to the erosion and eventual downfall of the capitalist system.

THERE ARE striking similiarities between Schumpeter and Marx. Marx, too, had not only an economic but a social and historical theory of capitalism. Marx, too, gave a glowing picture of the prodigious productive achievements of capitalism: "The bourgeoisie . . . has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts and Gothic cathedrals . . . The bourgeoisie . . . draws all nations . . . into civilization . . . It has created enormous cities . . . and thus rescued a considerable portion of the population from the idiocy of rural life . . . The bourgeoisie, during its rule of scarcely one hundred years, has created more massive and more colossal productive forces than have all preceding generations together."

Schumpeter approvingly quotes this passage from the *Communist Manifesto* and points out how it differs from modern "vulgarized Marxism" and "from the Veblenite stuff of the modern non-Marxist radical." He was indeed strongly attracted by the Marxian system and had a great admiration for Marx as a scholar. Ideologically, however, he and Marx were poles

apart. On the scientific level his theory differed in essential respects from the Marxian.

For example, there is no reason in his system, as there is in Marx's, why capitalism should develop growing *economic* disorders which would cause its breakdown. Nor did Schumpeter find a shred of evidence for the Marxian theory of the progressive impoverishment of the masses under capitalism.

THE gloomy view Schumpeter took of the future of capitalism in his *Capitalism, Socialism and Democracy* (and elsewhere) has been much criticized as a fatalistic interpretation of history and as defeatism. There is no doubt that he did lay himself open to such criticism. But it should be remembered that this book was written under the depressing influence of the war. Schumpeter foresaw more clearly than most of us that the defeat of one totalitarian regime would make the world safe for another more dangerous one. (See Chapter 28, "The Consequences of the Second World War," especially Section 3, "Russian Imperialism and Communism," which he added to the second edition of *Capitalism, Socialism and Democracy*.)

In the preface to the second edition of *Capitalism,* Schumpeter defends himself against the charge of defeatism: "I deny that this term is applicable to a piece of analysis. Defeatism denotes a certain psychic state that has meaning only in reference to action. Facts in themselves can never be defeatist or the opposite. . . . The report that a ship is sinking is not defeatist. Only the spirit in which the report is received can be defeatist: the crew can sit down and drink. But they can also rush to the pumps. If the men merely deny the report though it is carefully substantiated, then they are escapists."

LEON WALRAS (1834-1910), the founder of the School of Lausanne and builder of the general equilibrium system of economics, was for Schumpeter the greatest economic theorist of all, despite his espousal of highly dubious causes, such as land nationalization and bimetallism. His case differs, however, from that of Marx inasmuch as his economics and his politics are not so thoroughly scrambled.

On the other hand, Schumpeter was highly critical of the theoretical performance of some writers to whose values and policy recommendations he was sympathetic. For example, he had a low opinion of the English economist David Ricardo (1772-1823) as a theorist, knowing that this view ran counter to that of many

economists. On Ricardo's great success, despite his theoretical shortcomings, Schumpeter observed: "In all questions he touched, he was on the side that would have won out anyhow, but to the victory of which he contributed usable arguments, earning corresponding applause. Though others did the same, his advocacy was more brilliant. . . ."

Schumpeter adds that what he said of Ricardo applied word for word to John Maynard Keynes. Though they reached opposite policy conclusions, their success was comparable. Keynes also won his despite hopeless deficiencies in his theoretical apparatus: "Keynes was Ricardo's peer . . . [also] his work is a striking example of what we have called the *Ricardian Vice,* namely, the habit of piling a heavy load of practical conclusions upon a tenuous groundwork, which was unequal to it, yet seemed in its simplicity not only attractive but convincing."

SCHUMPETER'S evaluation and criticism of persons and theories are models of scrupulous objectivity and fairness. He carefully distinguishes between a writer's scientific contribution, his explanatory hypotheses and statements of facts on the one hand, and his ideology and political convictions on the other. Scattered throughout the *History* are short biographical sketches of many of the economists and social and political philosophers whose theories he reviews, especially of the older and little-known ones. The whole book is written in a lively, often sparkling style, enlivened by flashes of humor and striking formulations.

YET, the *History* was not written for history's sake. Schumpeter himself asks: "Why . . . should we go back to old authors and rehearse outmoded views? Cannot the old stuff be safely left to the care of a few specialists who love it for its own sake?"

His answer is that one cannot fully understand the teaching of a science at any moment without knowing something of its history. The study of the history of a science cannot fail to suggest new solutions and ideas; it "teaches us much about the ways of the human mind."

The *History of Economic Analysis* is the crowning achievement of a great social philosopher, an extraordinary scholar. His book will remain a classic, to be read with enjoyment and the greatest profit by professional economists and social scientists and laymen alike. ■

ECONOMICS IN ACTION

(Cont'd from page 2)

off than they were during the boom months of 1953. Thus, while individual incomes so far have declined by 1.4% since June '53, after taxes this decline comes to a mere 0.3%. For some groups tax cuts and salary increases will mean more income.

People with fixed sources of income such as pensions and dividends will of course, benefit from tax cuts, a "harder" dollar and somewhat lower living costs.

Teachers and white-collar workers are benefiting from higher salaries. Teachers' salaries, for example, average 5% above last year. Even industrial wage earners are making more per hour, although overtime and premium pay has been cut.

Many corporations registered a gain in net earnings for the first quarter despite declining sales. The reason for this seeming paradox is that the end of the excess profits tax left many of the larger companies with more profits. As a result, dividend payments for the first quarter were higher than for the same period last year.

Of course, these glittering statistics are small comfort to the man and woman out of a job—and the total number of unemployed is expected to top the 4 million mark by the beginning of next month. And they don't help the factory worker whose weekly take-home pay is down $1.40 from a year ago. But they do mean that the current readjustment has progressed without bringing "hard times" to the people as a whole.

While Congress is voting on the Administration's 1954-55 budget and openly discussing "old" and "new" looks in defense policy, it might be a good idea to

take a rather close look at the Malenkov budget. Despite "residual" (secret) revenues not listed in the official figures, there are some important clues:

Spending for conventional arms is to be cut by 10%. On the other hand, "residual" funds are 13.4 billion rubles higher than last year and most of this increase is almost certainly going into nuclear weapons.

Investment for heavy industry is being increased, but agriculture and consumer industries are getting a much bigger share of the total budget. Thus, while spending for heavy industry will grow by 12%, expenditures for agriculture are being stepped up by 75% and consumer goods industries will get 84% more than last year.

Soviet experts "conclude" that Russia's "new look" differs from the old look mainly in its emphasis on nuclear weapons and on increasing her pitifully low agricultural and consumer goods output.

The Department of Better Mousetraps: an automatic, portable dishwasher . . . a chemical weeder which first kills weeds and then transforms itself into a highly effective fertilizer . . . a butter dish with a built-in refrigerator . . . an electronic ear that can distinguish 84,000 different noises in a single second . . . an electronic device that combines mechanical buzzes and hisses to simulate speech . . . and, finally, an electric utility company which has come up with a lighting system that should help create (and solve) a lot of social problems. Home lights can be slowly dimmed for the overstaying guest. Colored lights can also be fused to give your living room the kind of "atmosphere" you want.